FCSIC

Farm Credit System Insurance Corporation

2023 Annual Report

MISSION

The Farm Credit System Insurance Corporation, a government-controlled, independent entity, shall

- protect investors in insured Farm Credit System obligations and taxpayers through sound administration of the Farm Credit Insurance Fund,
- exercise its authorities to minimize Insurance Fund loss, and
- help ensure the future of a permanent system for delivery of credit to agricultural borrowers.

FCSIC

Farm Credit System Insurance Corporation

April 15, 2024

Dear Mr. President and Mr. Speaker:

The Farm Credit System Insurance Corporation is pleased to submit its annual report for calendar year 2023. This report highlights our role as the independent federal government-controlled corporation established to insure the timely payment of principal and interest to investors in insured Farm Credit System debt securities.

The balance in the Farm Credit Insurance Fund as of December 31, 2023, was $7.5 billion. In 2023, we earned $626.0 million in insurance premiums from Farm Credit System banks and $163.7 million in investment income. In 2024, we expect to incur $5.1 million in operating costs.

FCSIC is proud of the role we play in supporting the safety and soundness of the Farm Credit System, and we are committed to faithfully fulfilling our mission.

Sincerely,

Jeffery S. Hall
Chairman

The President of the United States Senate
The Speaker of the United States House of Representatives

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MESSAGE FROM THE CHAIRMAN

I am pleased to present the 2023 Annual Report of the Farm Credit System Insurance Corporation. It is gratifying to note that, for the 34th consecutive year since we began issuing financial statements, our independent public auditor has issued unmodified or unqualified opinions on those statements.

The enclosed opinion letter indicates that the financial statements of the Farm Credit Insurance Fund, of which we are stewards, are fairly and accurately presented. The letter also indicates that we maintained effective internal control over financial reporting in 2023.

FCSIC's net income for 2023 was $785.3 million, compared with $712.3 million for the previous year. The Insurance Fund balance as of December 31, 2023, was $7.5 billion, compared with $6.7 billion at year-end 2022 (see Table 1).

Revenue from insurance premiums paid by Farm Credit System banks was $626.0 million for 2023, compared with $644.6 million for 2022. Interest income for 2023 totaled $163.7 million, compared with $72.1 million in 2022.

As required by the Federal Managers' Financial Integrity Act of 1982, our management assesses FCSIC's internal controls annually. The 2023 assessment found that our internal controls over financial reporting comply with the standards prescribed by the U.S. Government Accountability Office. The assessment also provided reasonable assurance that our program objectives are being met.

We will continue to carry out our mission in 2024 by working hard to achieve our strategic goals and objectives. We are mindful of our public trust and will ensure that investors, Congress, the Farm Credit System, and other regulatory agencies receive timely and accurate information on issues concerning the Insurance Fund.

Sincerely,

Jeffery S. Hall

BOARD OF DIRECTORS

The Farm Credit System Insurance Corporation is managed by a three-member board of directors comprising the same three individuals who make up the Farm Credit Administration (FCA) board. However, the same member may not serve as chairman of both entities. FCA is the independent federal agency responsible for the regulation and examination of the Farm Credit System (System), a nationwide network of financial cooperatives that lend to agriculture and rural America.

Currently, the three members of the FCSIC board of directors are Chairman Jeffery S. Hall, Glen R. Smith, and Vincent G. Logan. Mr. Hall is serving a term that expired on October 13, 2018, and Mr. Smith is serving a term that expired on May 21, 2022. Mr. Logan’s term expires on May 21, 2026.

JEFFERY S. HALL

Jeffery S. Hall is chairman of the board of directors of FCSIC. He was elected to this position on November 29, 2016. Mr. Hall has served on the FCSIC board and on the FCA board since his appointment by President Barack Obama on March 17, 2015. He is serving a term that expired on October 13, 2018.

Before coming to FCSIC and FCA, Mr. Hall was president of The Capstone Group, an association management and consulting firm that he cofounded in 2009. From 2001 to 2009, he was the state executive director for the U.S. Department of Agriculture's (USDA's) Farm Service Agency in Kentucky. In that role, he was responsible for farm program and farm loan program delivery and compliance.

From 1994 to 2001, Mr. Hall served as assistant to the dean of the University of Kentucky, College of Agriculture, advising the dean on state and federal legislative activities and managing a statewide economic development initiative called Ag-Project 2000.

Mr. Hall also served as a senior staff member in the office of U.S. Senator Mitch McConnell from 1988 to 1994. During that time, he was the legislative assistant for agriculture, accountable for internal and external issue management.

Before joining Senator McConnell's staff, Mr. Hall served on the staff of the Kentucky Farm Bureau Federation. Over his 30-year career in agriculture, he has held leadership positions in the following nonprofits: the Kentucky Agricultural Council, the Agribusiness Industry Network, the Louisville Agricultural Club, the Kentucky Agricultural Water Quality Authority, and the Governor's Commission on Family Farms.

Mr. Hall was raised on a family farm in southern Indiana, which has been in his family for more than 200 years. He is currently a partner in the farm with his mother and sister. Mr. Hall received a Bachelor of Science degree from Purdue University.

GLEN R. SMITH

Glen R. Smith was designated FCA board chairman and CEO of the Farm Credit Administration by President Donald Trump on July 17, 2019. He served in this position until October 21, 2022. Mr. Smith has been a member of the FCSIC board since December 2017. Although his board term expired on May 21, 2022, he will continue to serve on the board until his successor has been named. Mr. Smith continues to serve as the FCSIC Audit Committee Chairman.

Mr. Smith is a native of Atlantic, Iowa, where he was raised on a diversified crop and livestock farm. His farm experience started at a very early age, after his father was involved in a disabling farm accident. He graduated from Iowa State University in 1979 with a Bachelor of Science in agricultural business and accepted a position with Doane Agricultural Services as state manager of the company's farm real estate division.

In 1982, Mr. Smith and his wife, Fauzan, moved back to his hometown and started farming and developing his ag service business. Today, their family farm, Smith Generation Farms Inc., has grown to encompass about 2,000 acres devoted to corn, soybeans, hay, and a small beef cow herd.

Mr. Smith is founder and co-owner of Smith Land Service Co., an ag service company that specializes in farm management, land appraisal, and farmland brokerage, serving about 30 Iowa counties. From 2001 to 2016, he was also co-owner and manager of S&K Land Co., an entity involved in the acquisition, improvement, and exchange of Iowa farmland. Mr. Smith has served on numerous community, church, and professional boards. He was elected to the Atlantic Community School Board of Education on which he served for nine years.

In 1990, he earned the title of Accredited Rural Appraiser from the American Society of Farm Managers and Rural Appraisers. In 2000, he served as president of the Iowa chapter of that organization. He is a lifelong member of the Farm Bureau, Iowa Corn Growers Association, Iowa Soybean Association, and Iowa Cattlemen's Association.

The Smiths have four grown children and six grandchildren. Three of their children are involved in production agriculture. Their son Peter has assumed managerial responsibilities for both the family farm and business.

VINCENT G. LOGAN

Vincent G. Logan was appointed to the FCSIC board of directors and the FCA board by President Joseph Biden on October 3, 2022. He was designated FCA board chairman and CEO on October 21. Mr. Logan is the first openly gay person to serve on the FCSIC and FCA boards; as a member of the Osage Nation, he is also the first Native American. Mr. Logan is serving a term that expires on May 21, 2026.

Before joining the FCSIC and FCA boards, Mr. Logan was chief financial officer and chief investment officer for the Native American Agriculture Fund, which is the largest philanthropic organization dedicated solely to serving the Native American farming and ranching community.

Nominated by President Barack Obama and confirmed by the U.S. Senate in 2014, Mr. Logan served as the Special Trustee for American Indians at the U.S. Department of the Interior. During his tenure, he was appointed to the Department of the Treasury's Financial Literacy Education Commission.

Mr. Logan has worked in New York both as a lawyer, practicing in aircraft, shipping, and equipment finance, and as an investment advisor, focusing on institutional asset management and permanent fund development.

Mr. Logan previously served as a director to the Federal Reserve Bank of St. Louis, Little Rock Branch, and as an Oklahoma State University Foundation governor. He was educated at Oklahoma State University; the University of Oklahoma College of Law; Queen's College, Oxford University; and the School of International and Public Affairs at Columbia University.

2023 — YEAR IN REVIEW

FCSIC's 30-Year Anniversary of Full Operations

Congress created FCSIC as an independent, government-controlled corporation as part of the Agricultural Credit Act of 1987 to provide stability for, and investor confidence in, the then-troubled Farm Credit System. FCSIC's first full year of operations was 1993.

FCSIC manages the Farm Credit Insurance Fund, established by Congress as:

A United States government fund . . .

The Farm Credit Insurance Fund is identified on the Consolidated Financial Statements of the United States and the annual Budget of the United States as an asset of the United States government. Under current law, money in the Farm Credit Insurance Fund can only be used by FCSIC for the purposes specified in the Farm Credit Act. Full governmental ownership and control of the Farm Credit Insurance Fund protects the public interest and helps ensure that the Fund will only be used for its intended purposes.

. . . maintained for the benefit of investors and taxpayers . . .

The direct beneficiaries of the Farm Credit Insurance Fund are investors in Farm Credit System debt obligations who would receive payment from the Insurance Fund in the event of System bank default. If a Farm Credit bank is unable to make a payment to investors on a Systemwide debt security, FCSIC will pay investors out of its Insurance Fund. Taxpayers benefit from the Farm Credit Insurance Fund by, among other ways, having a pool of available funds that would be used to support the Farm Credit System before the need to use any appropriated taxpayer money. FCSIC protects investors and taxpayers through sound administration of the Farm Credit Insurance Fund, ensuring that funds are available and employed to fulfill FCSIC's primary purpose. Investors and taxpayers also benefit from FCSIC providing an independent federal 'second set of eyes' (in addition to the primary regulator) monitoring the Farm Credit System.

. . . that helps ensure a stable and competitive source of credit for America's farmers and ranchers.

The FCSIC government insurance program provides confidence and assurances to private investors (who provide the funds used in the operation of the Farm Credit System) and therefore enhances the FCS banks' access to markets and their ability to borrow at very favorable rates – which in turn allows the System to provide a consistent and competitive source of credit for rural America.

1993 and today

Our first year of full operations was 1993, when the Insurance Fund grew to $642.0 million, insuring $53.7 billion in System debt. We had a nine-member core staff and relied on a mixture of public- and private-sector contractors for support services. Thirty years later, the Insurance Fund is over 11 times larger at $7.5 billion with FCSIC insuring over $400 billion of System debt.

Yet we continue to operate effectively with a small staff of 10. We continue to leverage our resources through contracts and partnerships with public- and private-sector entities to ensure cost-efficient administration of our programs. Most importantly, we employ a staff of highly experienced professionals who have held a variety of senior positions in the government and private sector to ensure we effectively fulfill our core functions. We have also maintained remarkable stability among our staff, employing less than thirty different full-time people during the entire history of FCSIC.

Our 2023 expenses were slightly over $4.4 million, meaning our operating costs as a percentage of total assets represented 6 basis points for 2023 (0.06%, down from the prior year percentage of 0.07%). In October 2023, the board of directors approved a 2024 budget of $5.1 million, an increase of 3.0% over the prior year budget.

2023 Highlights

Investments

FCSIC must keep the Insurance Fund liquid so that it will be available if needed. FCSIC only invests in U.S. Treasury securities and, by policy, has implemented a short duration strategy to minimize losses if funds need to be used. FCSIC will not trade for capital gains purposes (i.e., all investments are held to maturity). Within those limited parameters, FCSIC seeks to optimize its rate of return on Insurance Fund investments.

We continued to implement our five-year bond ladder investment strategy in 2023. The weighted-average maturity of the securities we purchased in 2023 equaled 3.92 years with a weighted-average yield of 4.17% compared with a weighted-average maturity of 4.01 years and a weighted-average yield of 2.85% in 2022. The increased average yield of our investment portfolio over the past two years has enabled us to reduce the premium accrual rate charged to System banks, resulting in multimillion dollar savings for the Farm Credit System. We also earned enough in interest income during the first week of 2023 to cover all of our annual operating expenses. We plan to continue actively implementing our five-year-bond ladder investment strategy in 2024 while retaining the flexibility to respond to changing conditions.

Updated Policy Statement Concerning Assistance

FCSIC has certain statutory authority to provide financial assistance to a troubled System bank or association. In July 2023, the FCSIC Board adopted an updated Policy Statement clarifying how and when FCSIC would use that authority and included broad principles for FCSIC to follow, including:

- Ensuring that that FCSIC discretionary provision of financial assistance be consistent with and in support of FCSIC’s statutory purpose to insure the timely payment of principal and interest on insured Farm Credit System bank debt securities.
- Maintaining flexibility and readiness to respond appropriately on a case-by-case basis.
- Establishing a transparent process that independently considers all relevant information.

- Ensuring supervisory bank involvement in any assistance request for an association.
- Granting assistance only when there is sufficient information available to justify assistance in accordance with the statutory least-cost test.
- Coordinating with FCA on troubled institutions prior to granting assistance.

The updated policy statement also incorporates FCSIC's existing liquidity assistance program, establishing a process through which FCSIC can use its Insurance Fund as a form of backup liquidity for the Farm Credit System in the event external market circumstances make it extremely doubtful the System will be able to continue funding itself through sale of new debt securities.

New Strategic Plan

In December 2023, the FCSIC Board adopted a new Strategic Plan covering the years 2024-2029. The 2024-2029 Strategic Plan contains FCSIC's long-term strategic goals and objectives for carrying out its core mission of protecting investors in insured Farm Credit System obligations and taxpayers through sound administration of the Farm Credit Insurance Fund. The Plan is consistent with FCSIC's historical operating strategies and reaffirms FCSIC's cost-effective operating philosophy, under which FCSIC maintains a small core staff and outsources support services.

The Strategic Plan highlights three major focus areas within FCSIC's insurance program:

- Insurance Fund and Financial Management:
    - Manage the Farm Credit Insurance Fund to provide protection for investors and taxpayers against identified risks.
    - Maintain robust and dependable financial reporting and internal controls.
    - Maximize effectiveness of contracting
- Risk Management:
    - Identify, evaluate, and manage risks that could generate losses to the Insurance Fund.
- Receivership, Conservatorship, and Assistance Readiness
    - Planning and training for addressing troubled System institutions.

Table 1

Selected Financial Statistics for the Farm Credit System Insurance Corporation

(Dollars in Millions)

BALANCE SHEET	**2023**	**2022**	**2021**
Total assets	$ 7,458.3	$ 6,673.2	$ 5,960.5
Total liabilities	1.0	1.2	0.7
Insurance Fund			
Allocated insurance reserves accounts	122.8	0.0	0.0
Unallocated Insurance Fund	7,334.5	6,672.0	5,959.8
OPERATIONS			
Revenues	789.7	716.7	509.7
Operating expenses	4.4	4.4	4.1
Net income	$ 785.3	$ 712.3	$ 505.5

THE FARM CREDIT SYSTEM

Structure and Funding

The Farm Credit System is a network of federally chartered, cooperative lending institutions owned by the agricultural and rural customers it serves, including farmers, ranchers, producers and harvesters of aquatic products, agricultural cooperatives, and farm-related businesses. As of December 31, 2023, the System had 4 banks and 56 associations. Each association has its own chartered territory and is affiliated with one of the four banks. See Table 2 for the combined financial statistics for the banks and associations.

Table 2

Combined Farm Credit System Statistics

(Dollars in Billions)

	2023	2022	2021
Insured debt outstanding[1]	$ 418.4	$ 392.3	$ 353.4
Real estate mortgage loans	177.6	172.8	164.5
Production and intermediate-term loans	73.4	66.4	62.6
Agribusiness loans:			
Processing and marketing	47.6	42.0	34.3
Loans to cooperatives	16.9	19.5	21.3
Farm-related business	6.5	6.0	5.1
Rural infrastructure loans:			
Power	34.2	27.9	23.6
Communication	14.2	12.5	10.3
Water/Waste facilities	6.0	3.9	3.1
Rural residential real estate loans	7.2	7.0	6.9
Agricultural export finance loans	8.4	10.1	7.1
Lease receivables	4.7	4.1	4.2
Loans to other financing institutions	1.4	1.1	1.0
Cash and investments	93.5	89.9	80.8
Net income	7.4	7.3	6.8
Nonperforming loans as a percentage of total loans	0.45 %	0.47 %	0.46 %

Source: Federal Farm Credit Banks Funding Corporation

1. Insured debt outstanding is based on System institution call report information and reflects the book value of insured debt outstanding plus accrued interest as of December 31, 2023, 2022, and 2021. (Book value excludes fair-value adjustments.)

Associations receive funding from their affiliated bank and lend directly to their owner-borrowers, providing a consistent and reliable source of agricultural and rural credit throughout the United States, including the Commonwealth of Puerto Rico. One of the System banks (CoBank) also has nationwide authority to make retail loans to cooperatives and other eligible entities.

The banks obtain funds for their operations primarily through the sale of consolidated Systemwide debt securities. The banks own and use the Federal Farm Credit Banks Funding Corporation (Funding Corporation) to issue Systemwide debt securities in the capital markets. As the fiscal agent for the banks, the Funding Corporation partners with a select group of dealers to market and distribute the securities to investors throughout the world.

Systemwide debt securities are the general unsecured joint and several obligations of the banks. Systemwide debt securities are not obligations of, and are not guaranteed by, the U.S. government. In addition, Systemwide debt securities are not the direct obligations of the System associations and, as a result, the capital of the associations may not be available to support principal and interest payments on Systemwide debt securities.

Investor Protection

Investors provide the funds that the System lends to agriculture and rural America. FCSIC's primary purpose, as defined by the Farm Credit Act, is to insure the timely payment of principal and interest on Systemwide debt securities purchased by these investors.

Regulatory Oversight

The Farm Credit Administration is responsible for the examination, supervision, and regulation of each System institution. FCA is an independent agency in the executive branch of the U.S. government and derives its authorities from the Farm Credit Act. These authorities include examination and enforcement authorities similar to those of commercial bank regulators. The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee FCSIC, FCA, and the System.

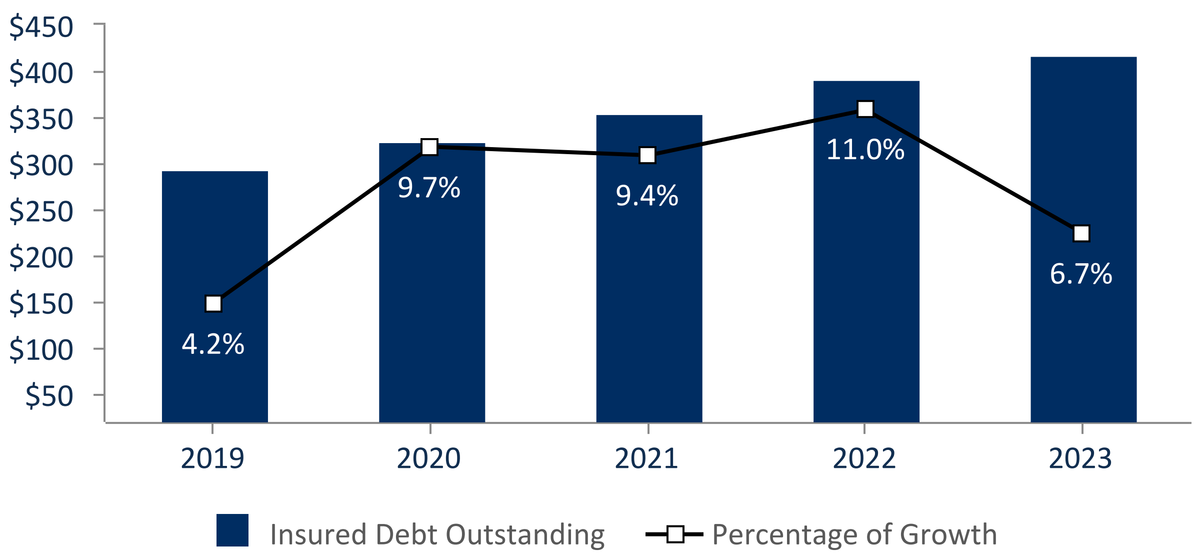
Insured Obligations

FCSIC insures Systemwide and consolidated bonds, notes, and other obligations issued by System banks through the Funding Corporation under section 4.2(c) or (d) of the Farm Credit Act. Figure 1 shows that insured debt outstanding increased by 6.7% in 2023 to $418.4 billion, compared with an increase of 11.0% in 2022.

Figure 1

Insured Debt Outstanding:
Growth Averaged 8.2% Over the Past Five Years

(Dollars in Billions)



Note: Insured debt outstanding, which is based on the call report information provided by System institutions, reflects the book value of insured debt outstanding, plus accrued interest. (Book value excludes fair-value adjustments.)

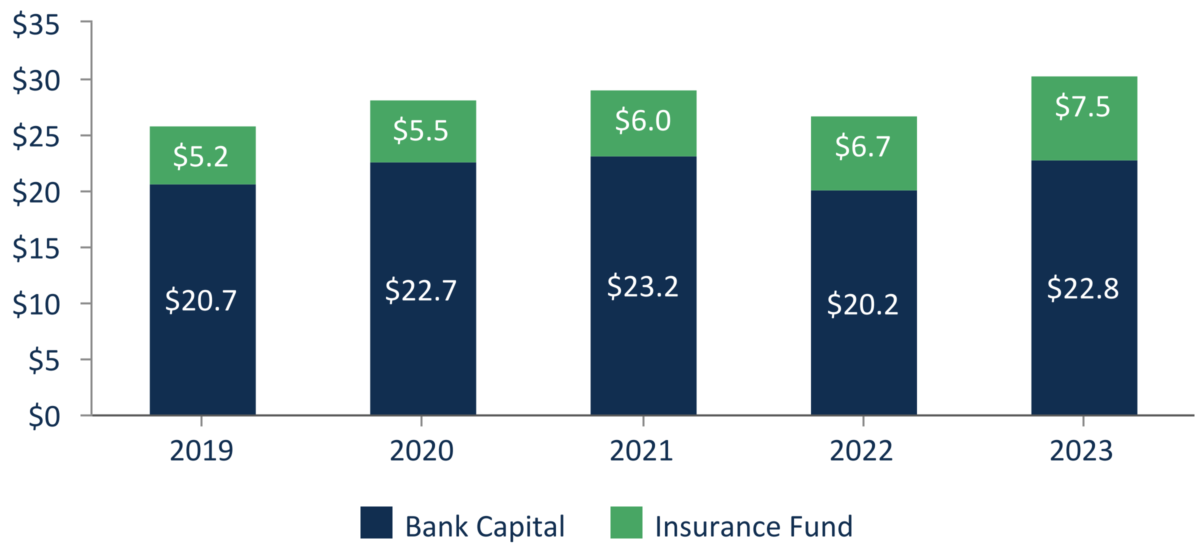
Loss Protection Layers for System Investors

The primary source of funds to repay insured Systemwide debt securities is the System's borrowers. Each borrower must demonstrate repayment capacity and, in most cases, collateral posted to secure the loan. The borrower makes payments on the loan to the lending association (or to the bank if the borrower received the loan directly from the bank), and the association in turn makes payments on its loan to its affiliated bank. The banks ultimately repay Systemwide debt securities. FCSIC maintains the Insurance Fund to insure the banks' repayment of Systemwide debt securities.

All the banks and associations currently exceed their minimum regulatory capital requirements as protection and support for the repayment of the outstanding insured debt. If a bank were unable to repay its portion of an insured Systemwide debt obligation, FCSIC would use the Insurance Fund to make the payment on its behalf. If the assets in the Insurance Fund were exhausted, the Farm Credit Act's provisions for joint and several liability would be triggered, requiring the other System banks to repay the defaulting bank's portion of the debt.

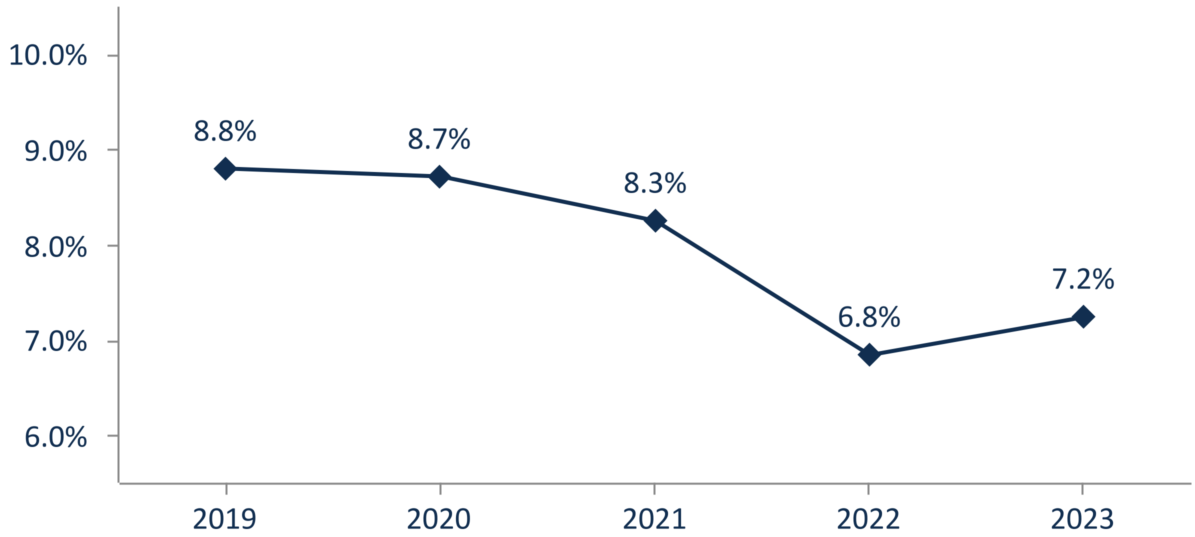
As Figure 2 shows, the amount of System bank capital and the balance in the Insurance Fund increased 16.9%, from $25.9 billion at year-end 2019 to $30.3 billion at year-end 2023. **The Insurance Fund is an asset of the United States government and does not constitute "capital" owned by the Farm Credit System. It is included in this discussion to illustrate the layers of protection for Systemwide bondholders.** Bank capital plus the amount in the Insurance Fund as a percentage of insured debt outstanding was 7.2% as of year-end 2023, up from 6.8% as of year-end 2022 (see Figure 3). The increase was due to an increase in bank capital, primarily the result of a decrease in accumulated other comprehensive loss caused by a decline in interest rates. Bank capital as a percentage of insured debt was 5.1% at year-end 2022 and 5.5% at year-end 2023.

Figure 2
Bank Capital and Insurance Fund
(Dollars in Billions)



Source: Federal Farm Credit Banks Funding Corporation

Figure 3
Bank Capital Plus Insurance Fund as Percentage of Insured Debt



Source: Federal Farm Credit Banks Funding Corporation

Overall, the financial performance and condition of the System on a consolidated basis remains strong, although some institutions continue to experience stress from credit deterioration in certain agricultural sectors. (See trends in the Financial Institution Rating System (FIRS) in the “Risk Management” section.)

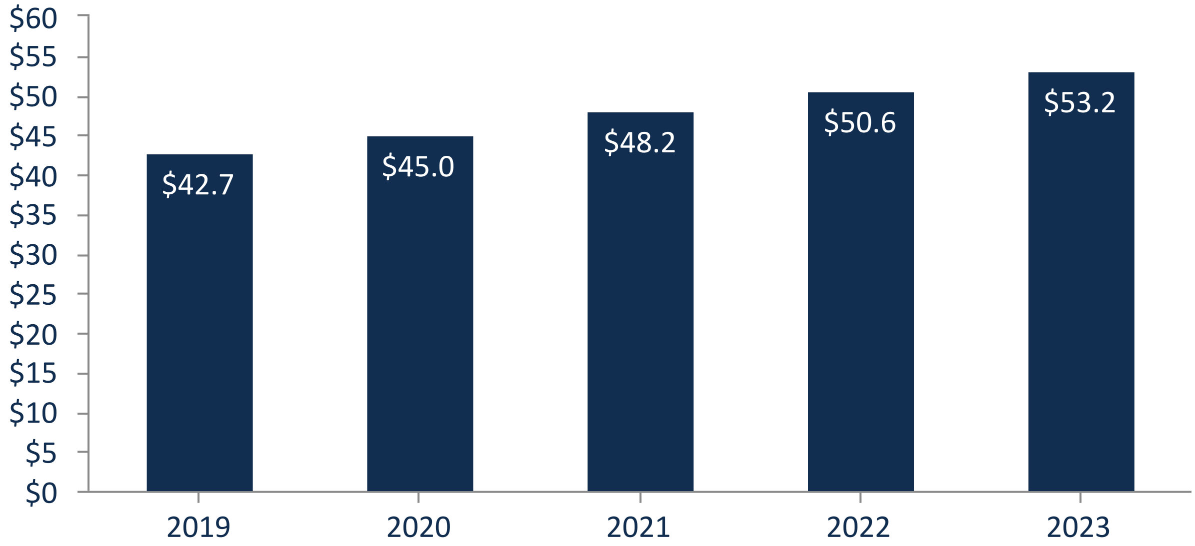
A bank’s credit exposure to borrowing associations is partially mitigated by the associations’ capital levels. Increases in System associations’ capital levels, the result of higher retention levels of association net incomes, further reduce credit risk.

As Figure 4 shows, from 2019 to 2023, combined association capital increased $10.5 billion — an annual average increase of approximately 6.0%. The associations continue to collectively achieve solid earnings and preserve capital. Since 2019, association capital as a percentage of total association assets has declined because association asset growth has outpaced association capital growth. However, all associations were well capitalized at the end of 2023, with association capital as a percentage of total association assets equaling 17.2% (see Figure 5).

Figure 4

Combined Association Capital

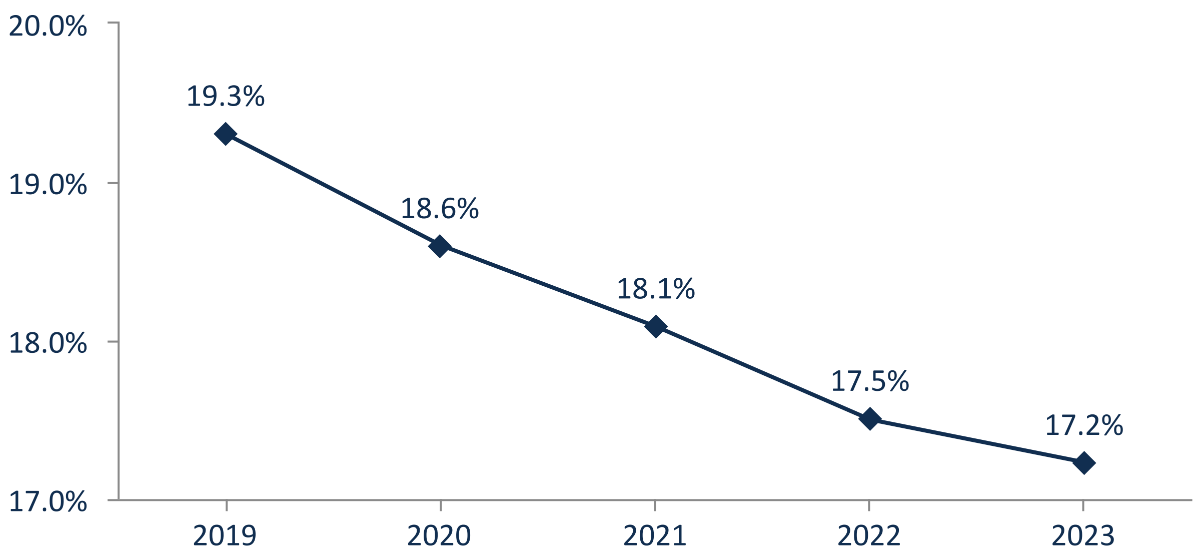
(Dollars in Billions)



Source: Federal Farm Credit Banks Funding Corporation

Figure 5

Combined Association Capital as Percentage of Total Association Assets



Source: Federal Farm Credit Banks Funding Corporation

Farm Credit System Risk Management Tools

Farm Credit System banks use risk management tools to protect investors. One tool is the Contractual Interbank Performance Agreement (CIPA). All System banks have entered into this agreement, which measures the financial condition and performance of each bank by using ratios that consider bank capital, asset quality, earnings, interest rate risk, and liquidity. The CIPA contains triggers that financially penalize banks that do not meet performance standards.

The System banks and the Funding Corporation have also entered into the Market Access Agreement. The Market Access Agreement establishes conditions for each bank's continued participation in the debt market. If a bank fails to meet agreed-upon performance measures, it may be restricted from issuing debt. The performance criteria used under the Market Access Agreement are the CIPA scores and the bank's tier 1 leverage and total capital ratios.

The Farm Credit Administration's liquidity regulation requires the banks to effectively manage liquidity risk and maintain a three-tiered liquidity reserve to better withstand a liquidity crisis. Each System bank is authorized to hold eligible investments in an amount not to exceed 35% of its total outstanding loans for the purposes of maintaining a liquidity reserve, managing short-term surplus funds, and managing interest rate risk.

The liquidity reserve must always consist of readily marketable instruments that are sufficient to fund at least 90 days of the principal portion of on-balance-sheet maturing obligations. The liquidity reserve must consist of

- level 1 instruments to cover the principal portion of each bank's on-balance-sheet maturing obligations for the first 15 days,
- level 1 and 2 instruments sufficient to cover days 16 to 30, and
- level 1, 2, and 3 instruments to cover days 31 to 90.

Level 1 instruments include cash, overnight money market investments, obligations of U.S. government agencies with a final remaining maturity of 3 years or less, non-System government-sponsored enterprise (GSE) senior debt securities that mature within 60 days, and diversified investment funds composed exclusively of level 1 instruments.

Level 2 instruments include obligations of U.S. government agencies with a final remaining maturity of more than 3 years, mortgage-backed securities that are fully guaranteed by a U.S. government agency as to the timely repayment of principal and interest, and diversified investment funds composed exclusively of level 1 and 2 instruments.

Level 3 instruments include non-System GSE senior debt securities with maturities exceeding 60 days, mortgage-backed securities that are fully guaranteed by a GSE as to the timely repayment of principal and interest, money market instruments maturing within 90 days, and diversified investment funds composed exclusively of level 1, 2, and 3 instruments.

All four System banks exceeded these requirements in 2023.

INSURANCE FUND MANAGEMENT

The Insurance Fund and the Secure Base Amount

The Farm Credit Insurance Fund is FCSIC's equity; it is the difference between total assets and total liabilities, including insurance obligations. The Insurance Fund is composed of an unallocated insurance fund (the portion of the Insurance Fund for which no specific use has been designated) and an allocated insurance fund (the portion of the Insurance Fund that has been transferred to the allocated insurance reserves accounts (AIRAs)).

The Farm Credit Act established the secure base amount (SBA) as 2% of the aggregate outstanding insured obligations, adjusted to exclude 90% of federal government-guaranteed loans and investments and 80% of state government-guaranteed loans and investments. Because of these "adjustments" (deductions), FCSIC held around 1.75 percent of total insured debt as the SBA for 2023. Table 3 shows how the secure base amount is calculated. The Farm Credit Act also gives FCSIC sole discretion to choose another percentage that we determine to be actuarially sound to maintain the Insurance Fund, considering the risk of insuring outstanding debt obligations. FCSIC has maintained the SBA at the statutory 2% level since the inception of the Insurance Fund and is committed to doing so unless it determines 2% is not "actuarially sound." FCSIC employs an actuarially sound model and processes to evaluate the size of the Insurance Fund and concluded that 2% remains actuarially sound.

FCSIC's premiums are set with the goal of reaching and maintaining the 2% secure base amount. However, if growth of insured debt is greater than forecast when premium accrual rates are established (or the Fund is used for some authorized purpose), the Insurance Fund will end the year below the secure base amount, and FCSIC will need to collect additional premiums in the following year to make up the shortfall. If growth of insured debt is less than forecasted when premium accrual rates are set, then the Insurance Fund may end the year above the secure base amount.

If the Insurance Fund exceeds the secure base amount at the end of any calendar year, FCSIC allocates the excess amounts, minus budgeted annual operating expenses and insurance obligations, to the AIRAs established by Congress for the benefit of the System banks. Once FCSIC determines that the allocation is appropriate and that the funds in the AIRAs are not otherwise needed, FCSIC may pay the amounts in the AIRAs to the accountholders (the System banks) in accordance with the formula specified in the Farm Credit Act.

Table 3

Calculation of Secure Base Amount

(Dollars in Millions)

	12/31/2023	12/31/2022
Total principal and interest of debt outstanding	$ 418,377	$ 392,277
Less:		
90% federal government–guaranteed loans	(8,235)	(8,590)
80% state government–guaranteed loans	(21)	(19)
90% federal government–guaranteed investments	(43,651)	(45,705)
80% state government–guaranteed investments	0	0
Total deduction	(51,907)	(54,314)
Adjusted insured debt	366,470	337,963
Secure base amount (2%)	7,329	6,759
Unallocated and allocated Insurance Fund balance	7,335	6,672
Unallocated and allocated Insurance Fund as a percentage of adjusted insured debt	2.03%	1.97%

Both total Insurance Fund and total assets increased by 11.8% to $7.5 billion in 2023 (see Figure 6). Insured debt outstanding grew $26.1 billion in 2023 (6.7%).

The Insurance Fund finished 2023 at 2.03%, which was $128 million above the secure base amount (see Figure 7). Because the aggregate amount in the Insurance Fund exceed the SBA, we are required to allocate the excess amount to the AIRAs, less the amount that the Corporation, in our sole discretion, determines to be the sum of the estimated operating expenses and estimated insurance obligations of the Corporation for the immediately succeeding calendar year. Since there are no insurance obligations and our budget for 2024 is $5.1 million, we transferred $123 million to the AIRAs at 12/31/2023. The Insurance Fund finished 2022 at 1.97%, $87 million below the secure base amount. Consequently, no funds were transferred to the AIRAs in 2022.

Figure 6

Insurance Fund Balances

(Dollars in Billions)

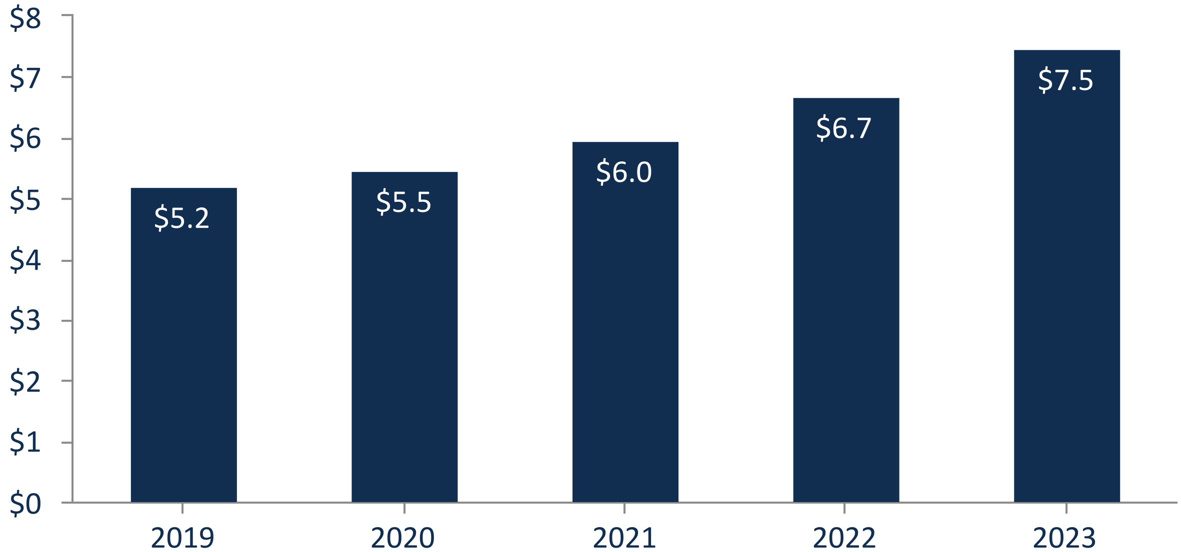
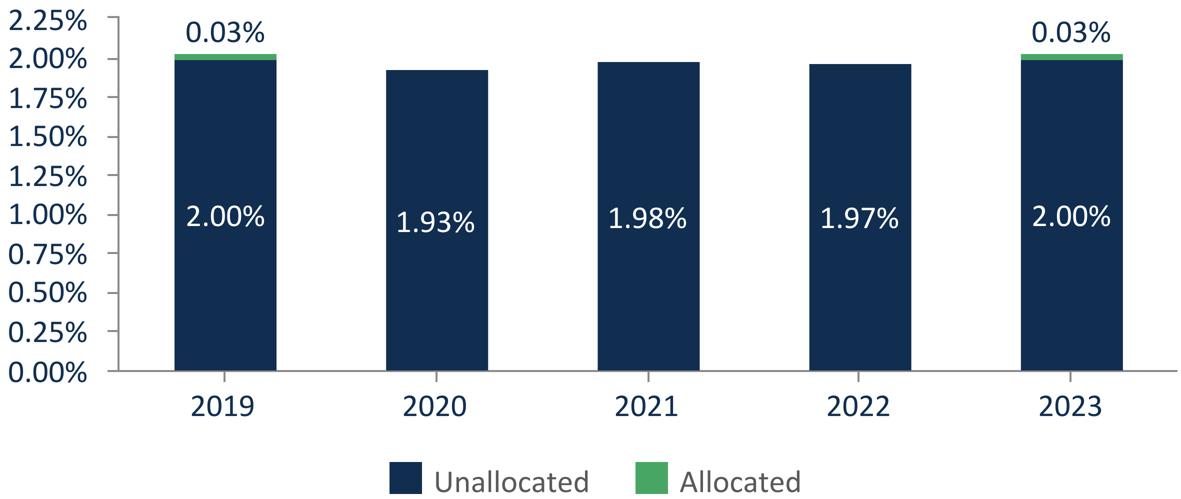


Figure 7

Insurance Fund Relative to 2% Secure Base Amount



Premiums

In setting premiums, the FCSIC board's objective is to achieve and maintain the statutory secure base amount of 2% in the Insurance Fund. The board reviews premium assessment rates as often as necessary but at least semiannually. The review focuses on the current level of the Insurance Fund and the amount of money and time needed to reach the secure base amount based on expected growth in Systemwide insured obligations.

The review also examines the risk that the Insurance Fund will need to be used in the next 12 months. It includes an analysis of the condition of the System, the health of the agricultural economy, and risks in the financial environment.

The Farm Credit Act requires premium assessments to be 20 basis points (0.20%) on adjusted insured debt outstanding unless they are reduced by the FCSIC board of directors. There is a risk surcharge of up to 10 basis points (0.10%) on nonaccrual loans and on other-than-temporarily impaired investments. In addition, the Farm Credit Act reduces the total insured debt on which premiums are assessed and requires premiums to be based on outstanding insured debt obligations adjusted downward by 90% of federal government-guaranteed loans and investments and by 80% of state government-guaranteed loans and investments.

The unallocated Insurance Fund began 2023 at 1.97% of the secure base amount. The board of directors set premium accrual rates at its February 8, 2023, meeting at 18 basis points (0.18%)on average adjusted insured debt. The board also continued the assessment of the surcharge of 10 basis points (0.10%) on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments.

At its July 12, 2023 meeting, the board of directors reviewed premiums and voted to maintain the premium accrual rate on average adjusted insured debt at 18 basis points (0.18%). The board also continued the assessment of the surcharge of 10 basis points on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments for the second half of 2023. The most important determinants in setting premium accrual rates are the Insurance Fund balance and prospects for Systemwide debt growth during the year.

During 2023, insured debt outstanding increased by 6.7%. The Insurance Fund finished 2023 above the 2% secure base level, at 2.03% of adjusted insured obligations or $128 million above the target level.

Revenues and Expenses

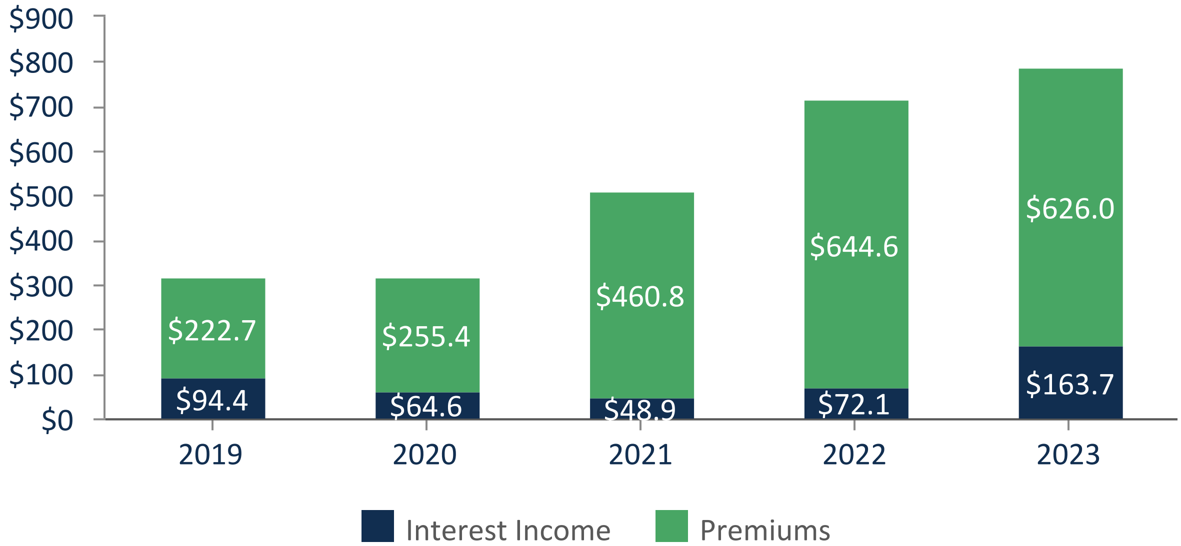
FCSIC operates with no annually appropriated funds. We collect insurance premiums from each Farm Credit System bank. These premiums and the income from our investment portfolio provide the funds necessary to fulfill our mission.

Our revenues increased by 10.2% to $789.7 million in 2023 from $716.7 million in 2022 (see Figure 8). Interest income increased 127.1% in 2023 to $163.7 million from $72.1 million in 2022.

Figure 8

FCSIC Revenues

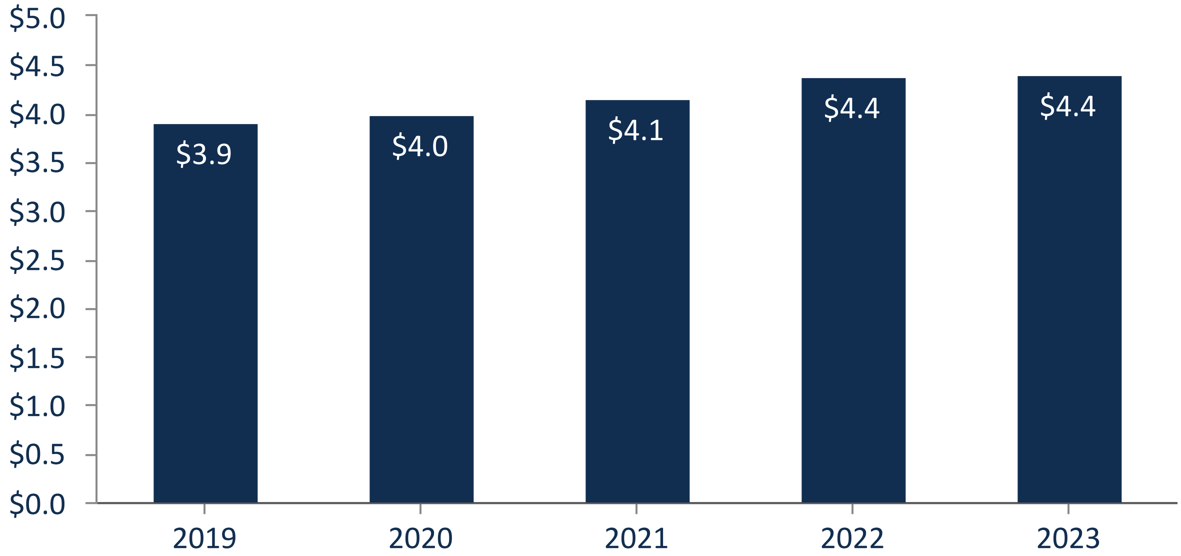
(Dollars in Millions)



To avoid duplication of effort and to minimize costs, we operate with a small core staff and use private- and public-sector contractors to leverage our efforts. The board of directors and management adopted this model as a cost-effective and efficient way to use available expertise, services, and resources to accomplish our mission.

Our operating costs as a percentage of total assets represented 6 basis points (0.06%) for 2023, down from 7 basis points (0.07%) in 2022. Costs for staff salaries, rent, and miscellaneous expenses were $3.5 million of the $4.4 million total for the year. The remaining expenses of $0.9 million were for contracted services. Total expenses were flat compared to the prior year (see Figure 9).

Figure 9
FCSIC Operating Expenses
(Dollars in Millions)



INVESTMENTS

FCSIC's investments increased from $6.0 billion as of year-end 2022 to $6.8 billion as of year-end 2023 (see Figure 10). The increase occurred primarily because of the investment of $644.5 million in premiums, which were collected in January 2023, and interest income of $163.7 million. At December 31, 2023, we held $3.0 million in the overnight investment account, compared with $0.4 million at December 31, 2022. The funds in the overnight investment account are classified as "cash and cash equivalents."

Our primary investment objective is to ensure adequate liquidity of the Insurance Fund to meet our mission. Our secondary objective is to optimize the rate of return on our investment portfolio. Funds are invested in U.S. Treasury securities in accordance with the Farm Credit Act and our investment policy. All investments are held to maturity. FCSIC does not trade for capital gains purposes.

In 2020, the board of directors revised FCSIC's policy statement to implement a short-duration investment strategy to minimize loss exposure in the event FCSIC needs to make disbursements to meet its statutory obligations. Under the current policy, at least 40% of the portfolio must consist of Treasury securities with remaining maturities of 2 years or less; Treasury securities with maturities of between 5 and 10 years must not exceed 20% of the portfolio. FCSIC does not purchase Treasury securities with maturities that exceed 10 years.

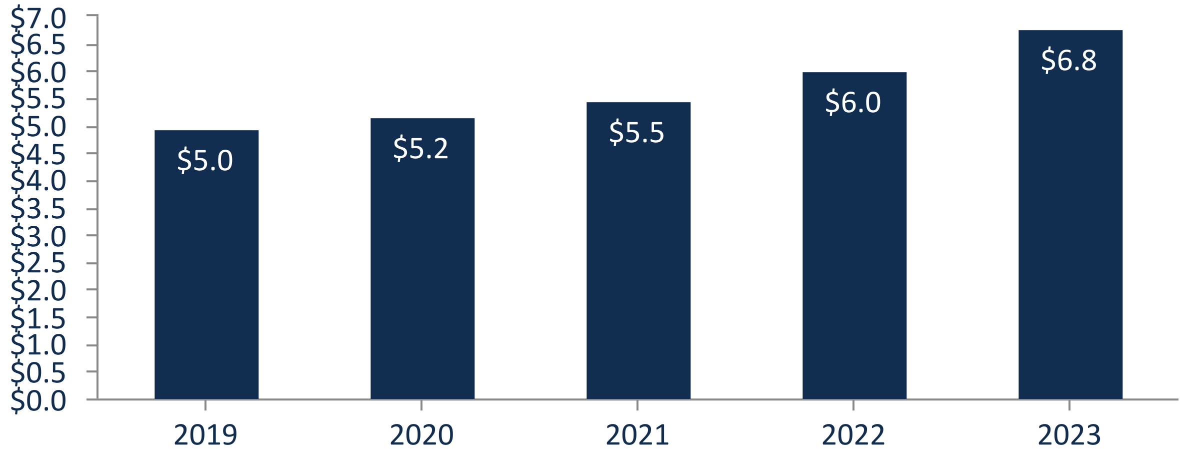
In 2022, FCSIC implemented a five-year bond ladder strategy, which has increased the weighted-average maturity of the portfolio. Under the current strategy, FCSIC plans to keep about 42% of the portfolio in the 0- to 2-year range and about 58% of the portfolio in the 3- to 5-year range. As of December 31, 2023, the weighted-average maturity of the portfolio was 2.5 years, up from 2.1 years at the end of 2022. The composition of the investment portfolio as of December 31, 2023, is shown in Figure 11.

In 2023, we adopted a new 60-month benchmark to assess portfolio performance. The benchmark is designed to compare our performance against a passive 5-year bond ladder investment strategy. In 2023, the average FCSIC investment portfolio yield was 2.5%, up from 1.2% in 2022. Our new benchmark yield equaled 2.0% in 2023, up from 1.7% in 2022.

Figure 10

FCSIC Investments

(Dollars in Billions)

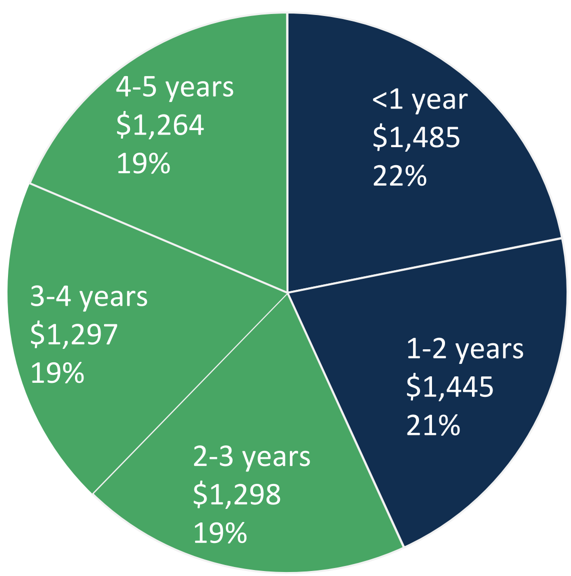


Note: Total investments reflected on this chart include overnight investments classified as "cash and cash equivalents" on the balance sheet.

Figure 11

Investment Portfolio by Maturity as of December 31, 2023

(Dollars in Millions)



Note: Total investments reflected in this chart include overnight investments classified as "cash and cash equivalents" on the balance sheet.

At least 40% of the portfolio must consist of Treasury securities with remaining maturities of 2 years or less; Treasury securities with maturities of between 5 and 10 years must not exceed 20% of the portfolio.

RISK MANAGEMENT

FCSIC’s primary purpose is to insure the timely payment of principal and interest on Systemwide debt securities. The System banks, through the jointly owned Federal Farm Credit Banks Funding Corporation, issue Systemwide debt securities, insured by FCSIC, to fulfill their mission. Anything impairing the System banks’ ability to repay their insured debt constitutes an insurance risk. To carry out our mission, FCSIC monitors conditions in the farm, rural, domestic, and global economies that affect the System’s ability to repay insured debt obligations.

FCSIC’s Risk Profile

FCSIC’s Insurance Fund is exposed to a variety of risks, some inherent in insuring financial institutions and others specific to the System. Examples of specific events that could increase risk to the Insurance Fund include the following:

- Material reduction in System bank capital
- Material adverse change in the System banks’ ability to access debt markets
- Catastrophic operational failure at a System institution related to a control deficiency or cybersecurity breach
- Inadequate governance at a System institution, such as a failed business strategy or mismanagement of the organization
- Significant, rapid, or unexpected credit deterioration resulting from adversity in the agricultural sector

Major categories of risk monitored by FCSIC include the following:

Credit risk — the risk of default on a debt that may arise from a borrower failing to make required payments. Credit risk includes consideration of loan concentrations and other broad elements of System institution portfolios. FCSIC primarily focuses on credit risk issues affecting the underlying agricultural borrowers’ ability to repay their debts to individual System institutions. These risks include the following:

- Changes in farmland values
- Price volatility for agricultural commodities
- Changes in government support programs for agricultural producers
- Changes in supply and demand for U.S. agricultural products
- Changes in international trade and the value of the U.S. dollar
- Changes in production costs
- Changes in the domestic economy that affect incomes from off-farm jobs
- Climate, weather, and other environmental conditions
- Availability of agricultural workers

Liquidity risk — the risk that an institution may be unable to meet short-term financial demands without unacceptable losses. The System relies on its ability to regularly issue new debt obligations in part to pay maturing obligations. The System banks also hold liquidity investments that are available if needed. A significant disruption in the System banks' ability to issue new debt obligations or sell liquidity investments would impair their ability to repay insured obligations. As further discussed on page 33, FCSIC has procedures in place to provide liquidity assistance to System banks if external market circumstances make it likely that the banks will be unable to pay maturing insured obligations.

Interest rate risk — the risk that changes in interest rates may reduce the value of assets with a consequent negative impact on operating results and financial condition.

Operational risk — the prospect of losses resulting from inadequate or failed procedures, controls, systems, or policies, including employee errors, systems failures, or fraud or other unauthorized activity. Operational risk also includes inadequate defenses against cyber-threats.

Strategic risk — the risk that a failed business strategy, decision, or series of decisions leads to losses.

Structural risk — the risk related to the design of the Farm Credit System. For example, as a lender to a single industry (agriculture), the System has a built-in concentration risk. Also, any changes to the System's fundamental organization, such as an alteration in the supervisory relationship between System banks and associations, or diminution of the two layers of loss absorbing capital, may create risk to the Insurance Fund.

Reputational risk — the risk resulting from events that affect the reputation of the System or the agriculture industry. Such events may affect the System's funding costs depending on market reaction.

Political risk — the risk of loss of support from federal and state governments. This includes any change in government support for government-sponsored enterprises.

The Risk Environment in 2023

The global economy was surprisingly resilient in 2023 despite persistent inflation, high interest rates, slower global trade and industrial production and the continued war in Ukraine. In some economies, growth was strong, reflecting robust private and fiscal spending and tight labor markets. In other economies, growth remained subdued, reflecting weak consumer sentiment, the lingering effects of high energy prices, and weakness in interest-rate sensitive sectors.

The U.S. economy performed remarkably well in 2023. Consumers were able to withstand higher costs associated with elevated levels of inflation and higher interest rates due to the strong labor market, rising wages, manageable debt levels, and excess cash reserves. U.S. real gross domestic product increased 2.5% in 2023, up from 1.9% in 2022. Personal consumption expenditures increased by 2.2%, with goods and services consumption increasing by 2.0% and 2.3%, respectively. The trade deficit narrowed resulting from an increase in exports and a decline in imports. However, gross private domestic investment declined by 1.2% as businesses reduced inventory spending and demand for residential real estate investment waned due to continued rising interest rates.

Inflation pressures abated in 2023. The year-over-year increase in the non-seasonally adjusted consumer price index dropped from 6.5% in 2022 to 3.4% in 2023. The Federal Reserve raised the federal funds rate four times between January and July and then held the rate steady at 5.25-5.50% through December. The Treasury yield curve remained inverted throughout the year.

Despite high interest rates and tighter credit conditions, the U.S. labor market remained surprisingly strong throughout the year. The unemployment rate fluctuated between 3.4% and 3.8% during 2023 and ended the year at 3.7%. The annual increase in average hourly wages declined throughout the year but remained well above historical trends.

While the general domestic economy was strong in 2023, the last three years have been volatile and challenging for U.S. agriculture, and farmers in particular. Successive waves of drought, disease, and war pushed agricultural commodity prices to record levels and left even the most experienced agriculture market participants in uncharted territory. Consumer demand eroded in response to affordability constraints. At the same time the U.S. Federal Reserve tightened lending conditions, raising rates and strengthening the dollar, which, in conjunction with a weaker Russian ruble and Chinese yuan, further depressed prices of commodities such as wheat and soybeans.

2023 net farm income was estimated at $155.9 billion, a $29.7 billion or 16% decrease from the record 2022 levels[1], as margins were squeezed with declining commodity prices and production costs remaining elevated. These trends are expected to continue, and 2024 farm income is forecast at $116.1 billion, a $39.8 billion or 25.5% decrease from 2023, although still $14.0 billion above the 10- year average.[2]

Additional risks include geopolitical events that prevent the free flow of agricultural commodities, extreme weather events increasing in frequency and severity, and lower levels of agriculture exports due to declining demand, a strong dollar, and increased competition from South American producers.

The System's loan volume increased $24.9 billion, or 6.7%, to $398.2 billion at year-end 2023, compared with $373.3 billion at year-end 2022. The growth was primarily due to increased rural infrastructure, production and intermediate-term, processing and marketing, and real estate mortgage loans, offset in part by a decrease in loans to cooperatives.

System credit quality remained generally stable in 2023. Nonaccrual loans increased $340.0 million, or 26.9%, to $1.6 billion at December 31, 2023. The increase was primarily due to credit quality deterioration, which affected a limited number of borrowers in the tree fruits, hogs, and biofuels sectors. The ratio of nonaccrual loans to total loans outstanding was 0.40% at December 31, 2023 and 0.34% at December 31, 2022 (see Figure 12).

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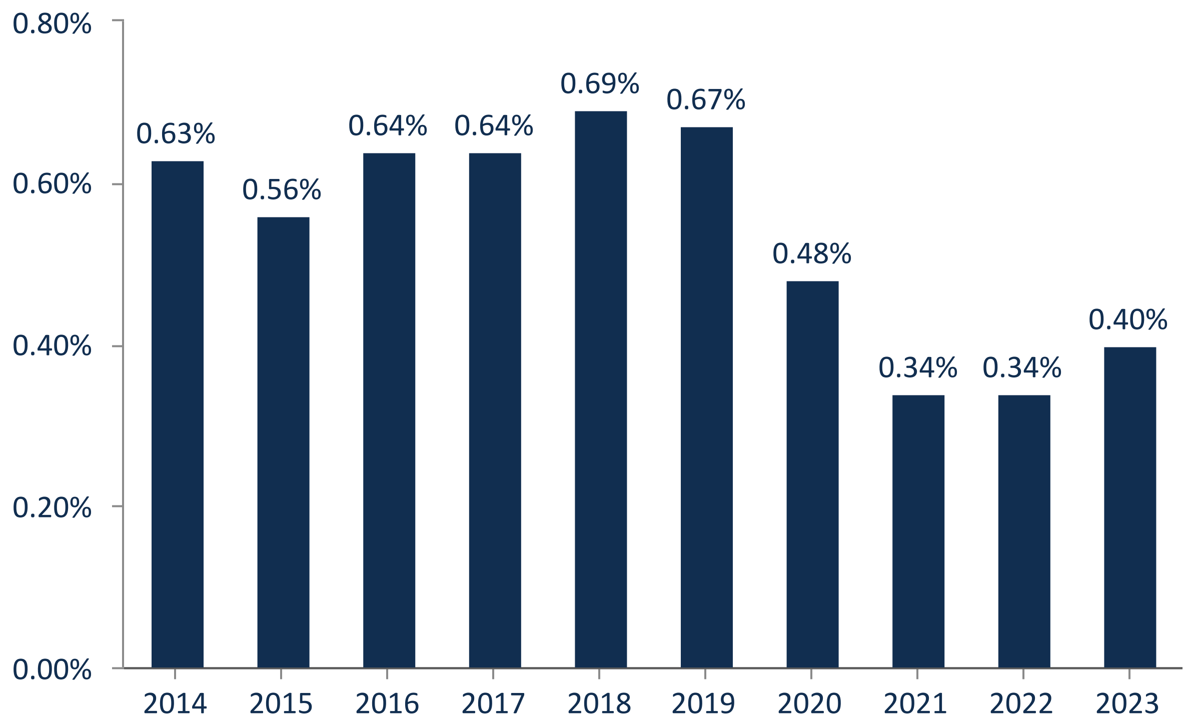
[1] U.S. Department of Agriculture, Economic Research Service. (2024, February 7). *Farm Sector Income & Finances: Highlights from the Farm Income Forecast.*

[2] Ibid

Figure 12

Nonaccrual Loans as a Percentage of Total Loans Outstanding



Source: Federal Farm Credit Banks Funding Corporation

The allowance for loan losses was $1.6 billion at December 31, 2023, an increase of $41 million, or 2.6% versus December 31, 2022. The allowance for loan losses represents the aggregate of each System entity's individual evaluation of its allowance for loan losses requirements. Evaluations consider factors including loan loss experience, portfolio quality and composition, collateral value, current agricultural production, and economic conditions. Although aggregated for the System's combined financial statements, the allowance of each entity is specific to that institution and is not available to absorb losses at other System entities.

The System continued to have reliable access to the debt markets to support its mission. Investor demand for Systemwide insured debt securities remained favorable across all products throughout 2023. The System is a government-sponsored enterprise that continues to benefit from broad access to domestic and global capital markets, providing a dependable source of competitively priced debt.

FCA's capital rule for banks and associations is comparable to the Basel III standardized approach adopted by the federal banking regulatory agencies. FCA's regulatory minimums include a 4.5% common equity tier 1 risk-based capital ratio, a 6.0% tier 1 risk-based capital ratio, an 8.0% total risk-based capital ratio, and a 4.0% tier 1 leverage ratio, of which at least 1.5% must be composed of unallocated retained earnings (URE) and URE equivalents. The risk-based capital ratios also include a 2.5% common equity tier 1 capital conservation buffer. The tier 1 leverage ratio includes a 1.0% leverage buffer. As of December 31, 2023, all System institutions exceeded the regulatory minimum and buffer requirements.

FCA authorizes each System bank to hold eligible investments in an amount not to exceed 35% of its total outstanding loans for the purposes of maintaining a liquidity reserve, managing short-term funds, and managing interest rate risk. The liquidity reserve must consist of marketable investments that are sufficient to fund 90 days of on-balance-sheet maturing obligations. The System banks reported a combined $90.7 billion in cash and available-for-sale investments with a liquidity position of 183 days at year-end 2023, up from 180 days at year-end 2022.

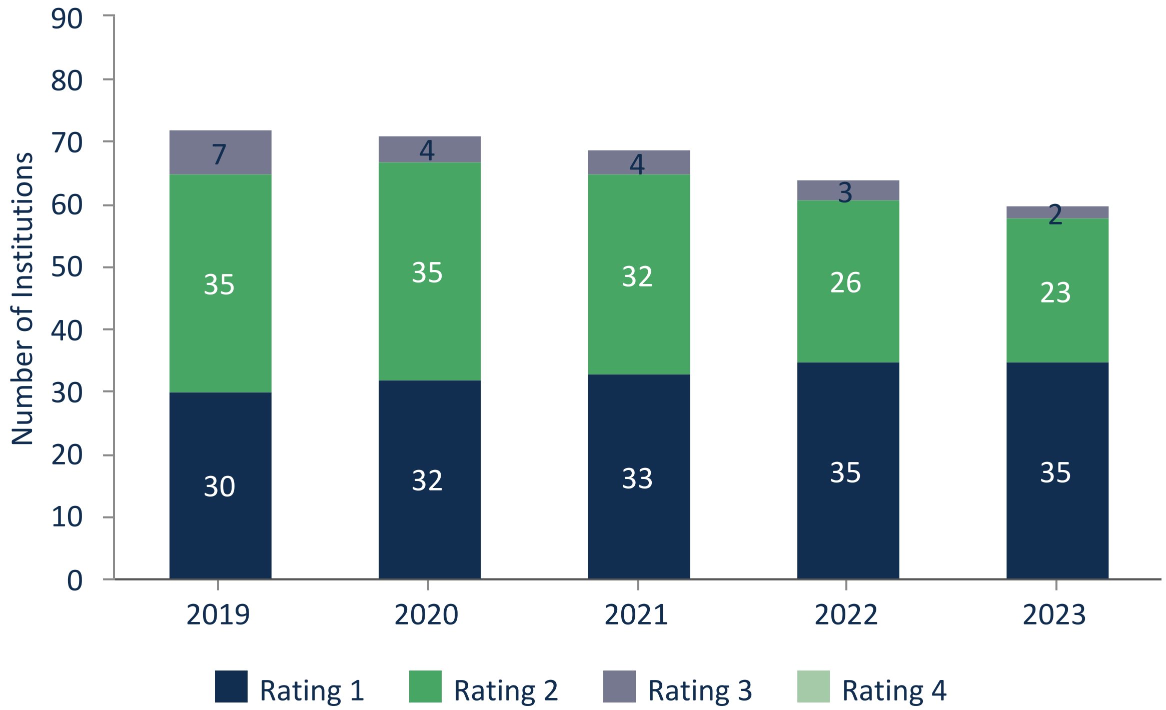
The System banks are further required to maintain a three-tiered liquidity reserve, consisting of level 1 instruments to cover each bank's maturing obligations for the first 15 days; level 1 and 2 instruments sufficient to cover days 16 to 30; and level 1, 2, and 3 instruments to cover days 31 to 90. All four System banks exceeded these requirements in 2023.

The System banks have established contingency funding plans to provide for events that could impede access to the debt markets. The System banks also regularly perform credit and liquidity stress testing to determine their ability to withstand severe market events while continuing to fulfill their mission.

Figure 13 shows a summary of composite year-end Financial Institution Rating System (FIRS) ratings for System banks and associations. Institutions with performance-related issues continued to receive greater examination scrutiny and supervisory attention from FCA.

Figure 13

FIRS Composite Year-End Ratings for Banks and Associations of the Farm Credit System



Source: Farm Credit Administration

FINANCIAL ASSISTANCE AND RESOLUTIONS

FCSIC has statutory authority to provide “stand-alone assistance” to a System bank or association for any of the following reasons:

- To prevent the placing of the institution in receivership
- To restore the institution to “normal operations”
- To reduce the risk to FCSIC caused by “severe financial conditions”

FCSIC may also provide assistance to facilitate a merger or consolidation of a troubled System institution with another System institution. As discussed in the "Year in Review" section, in July 2023, the FCSIC Board adopted an updated policy statement clarifying how and when FCSIC would use its assistance authority.

At present, no assistance agreements are outstanding. If a System institution needs financial assistance, FCSIC must ensure that the proposed assistance is the least costly means for resolving the institution’s problems; by law, FCSIC cannot provide financial assistance if the cost of liquidation is lower than the cost of providing assistance.

FCSIC has procedures in place to provide liquidity assistance to System banks when severe financial conditions threaten the banks’ ability to repay maturing insured debt. The procedures implement FCSIC’s Policy Statement Concerning Assistance. Along with the procedures, we developed a model assistance agreement, drafted necessary forms related to valuation of collateral and liquidity reserves, and entered into a collateral pledge agreement with each bank and a collateral custodian. We review the procedures annually to evaluate whether changes are needed and to engage with System stakeholders through a biennial preparedness exercise. FCSIC liquidity assistance is designed to cover System bank insured debt obligations during a short-term liquidity crisis, allowing markets time to recover normal operation.

To support potential liquidity assistance needs, FCSIC maintains a $10 billion line of credit with the Federal Financing Bank that can be accessed when exigent market circumstances make it extremely doubtful that the System banks will be able to pay maturing debt obligations that we insure. This liquidity backstop allows us to provide more assistance to System banks than we otherwise could provide from the Insurance Fund alone.

When appointed by FCA, FCSIC has the statutory responsibility to serve as receiver or conservator for System banks and associations. As conservator, we will operate the institution as a going concern. Upon appointment as receiver, we will take possession of a System institution to settle its business operations, collect the debts owed to it, liquidate its property and assets, pay its creditors, and distribute any remaining proceeds to stockholders. Our statutory receivership and conservatorship powers are based on, and intended by Congress to be functionally equivalent to, the parallel authorities of the Federal Deposit Insurance Corporation.

Currently there are no active receiverships or conservatorships in the System.

Our staff maintains contact with the resolution staff of the Federal Deposit Insurance Corporation and the National Credit Union Administration to stay informed about best practices and exchange information concerning receivership management.

We have board-approved policies that provide guidance related to resolution activities, including the management and disposition of owned assets and FCSIC's examination authority for troubled institutions. These policies are supported by detailed procedures. The FCSIC board must review and approve all policy statements every five years.

Farm Credit System Insurance Corporation

Audited Financial Statements

For the Years Ended December 31, 2023 and 2022

Farm Credit System Insurance Corporation

Contents

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Farm Credit System Insurance Corporation
McLean, VA 22102

In our audit of the 2023 financial statements of the Farm Credit System Insurance Corporation (FCSIC), we found:

- The financial statements as of and for the fiscal year ended December 31, 2023, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- FCSIC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023; and
- No reportable noncompliance in fiscal year 2023 with the provisions of applicable laws; regulations; contracts; and grant agreements that we tested.

The following sections contain:

1. Our report on FCSIC's financial statements and on internal control over financial reporting, which includes an other-matter paragraph related to the prior-year financial statements being audited by other auditors, and other information included with the financial statements;[1] and
2. Our report on FCSIC's compliance and other matters as required by *Government Auditing Standards*. This section also includes FCSIC's comments on our report.

REPORT ON THE FINANCIAL STATEMENTS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Opinion on the Financial Statements

We have audited the financial statements of FCSIC, which comprise the statement of financial condition as of December 31, 2023; the related statement of income and expenses and changes in insurance fund and statement of cash flows for the year then ended; and the related notes to the financial statements.

In our opinion, FCSIC's financial statements present fairly, in all material respects, the financial position of FCSIC as of December 31, 2023, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Opinion on Internal Control over Financial Reporting

We also have audited FCSIC's internal control over financial reporting as of December 31, 2023, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

[1] Other information consists of information included with the financial statements, other than the auditors' report.

In our opinion, FCSIC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on COSO.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and guidance contained in Office of Management and Budget (OMB) Bulletin 24-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin 24-01 are further described in the Auditors' Responsibilities for the Audit of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of FCSIC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Other Matter

The financial statements of FCSIC for the year ended December 31, 2022, were audited by other auditors, who expressed an unmodified opinion on those statements on February 23, 2023.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; (2) preparing and presenting other information included in FCSIC's Annual Report, and ensuring the consistency of that information with the audited financial statements; (3) the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (4) assessing the effectiveness of internal control over financial reporting based on the criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA); and (5) its assessment about the effectiveness of internal control over financial reporting as of December 31, 2023, included in the accompanying Management's Report on Internal Control over Financial Reporting.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about FCSIC's ability to continue as a going concern for a reasonable period of time.

Auditors' Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditors' report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS, *Government Auditing Standards*, and OMB guidance will always detect a material misstatement or a material weakness when it exists.[2] The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with GAAS, *Government Auditing Standards*, and OMB guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control relevant to our audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered FCSIC's process for evaluating and reporting on internal control over financial reporting based on criteria established under COSO. We did not evaluate all internal controls relevant to operating objectives as broadly established under COSO, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about FCSIC's ability to continue as a going concern for a reasonable period of time.

[2] A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel. The objectives of internal control over financial reporting are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Other Information

FCSIC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements. Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

REPORT ON COMPLIANCE AND OTHER MATTERS

In connection with our audits of FCSIC's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditors' responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters for 2023 that would be reportable under *Government Auditing Standards*. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FCSIC. Accordingly, we do not express such an opinion.

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

We performed our tests of compliance in accordance with *Government Auditing Standards*.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

FCSIC management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to FCSIC.

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to FCSIC that have a direct effect on the determination of material amounts and disclosures in FCSIC's financial statements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all provisions of laws, regulations, contracts, and grant agreements applicable to FCSIC. We caution that noncompliance may occur and not be detected by these tests.

Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

FCSIC's Comments

FCSIC's management did not provide any formal comments to this report.

Sikich CPA LLC

February 21, 2024

Farm Credit System Insurance Corporation

Statements of Financial Condition

(Dollars in thousands)

December 31,	**2023**	2022
Assets		
Cash and cash equivalents	**$ 3,240**	$ 648
Investments in U.S. Treasury obligations	**6,784,993**	5,993,783
Premiums receivable	**626,019**	644,543
Accrued interest receivable	**43,771**	33,776
Operating lease right-of-use assets	**300**	452
General property, plant, equipment, and software, net	**0**	1
Total Assets	**$ 7,458,323**	$ 6,673,203
Liabilities and Insurance Fund		
Liabilities		
Operating lease liabilities	**$ 306**	$ 457
Accounts payable and accrued expenses	**691**	703
Total Liabilities	**997**	1,160
Insurance Fund		
Unallocated Insurance Fund	**7,334,531**	6,672,043
Allocated Insurance Fund	**122,795**	0
Total Insurance Fund	**7,457,326**	6,672,043
Total Liabilities and Insurance Fund	**$ 7,458,323**	$ 6,673,203

See accompanying notes to the financial statements.

Farm Credit System Insurance Corporation

Statements of Income and Expenses and Changes in Insurance Fund

(Dollars in thousands)

Year-ended December 31,	**2023**	2022
Income		
Premiums	**$ 626,019**	$ 644,597
Interest income	**163,667**	72,057
Total Income	**789,686**	716,654
Expenses		
Administrative operating expenses	**4,403**	4,379
Total Expenses	**4,403**	4,379
Net Income	**785,283**	712,275
Insurance Fund - beginning of year	**6,672,043**	5,959,768
Insurance Fund - end of year	**$ 7,457,326**	$ 6,672,043

See accompanying notes to the financial statements.

Farm Credit System Insurance Corporation

Statements of Cash Flows

(Dollars in thousands)

Year-ended December 31,	**2023**	2022
Cash flows from operating activities		
Net income	**$ 785,283**	$ 712,275
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**1**	5
Noncash lease expense	**152**	150
Net amortization and accretion of investments	**(13,328)**	48,230
Principal reduction in operating lease liabilities	**(151)**	(145)
Increase in premiums receivable	**18,524**	(184,040)
Increase in accrued interest receivable	**(9,995)**	(10,589)
Increase in accounts payable and accrued expenses	**(12)**	9
Net cash provided by operating activities	**780,474**	565,895
Cash flows from investing activities		
Payments for purchase of U.S. Treasury obligations	**(2,796,741)**	(2,674,371)
Proceeds from maturity of U.S. Treasury obligations	**2,018,859**	2,104,184
Net cash used in investing activities	**(777,882)**	(570,187)
Net change in cash and cash equivalents	**2,592**	(4,292)
Cash and cash equivalents, beginning of year	**648**	4,940
Cash and cash equivalents, end of year	**$ 3,240**	$ 648
Supplemental disclosure of cash flow information:		
Operating lease assets obtained in exchange for new Operating lease liabilities - Upon adoption (See Note 5)		$ 602

See accompanying notes to the financial statements.

Farm Credit System Insurance Corporation
Notes to the Financial Statements

Note 1: Organization and Summary of Significant Accounting Policies

Farm Credit Insurance Fund (Insurance Fund)

Statutory Framework:

The Agricultural Credit Act of 1987 established the Farm Credit System Insurance Corporation (the Corporation or FCSIC) for the purpose of insuring the timely payment of principal and interest on notes, bonds, debentures, and other obligations issued under subsection (c) or (d) of section 4.2 of the Farm Credit Act of 1971, as amended (the Farm Credit Act). Each bank in the Farm Credit System (System) participating in insured obligations is an insured System bank. At December 31, 2023 there were four insured System banks and 56 direct lender associations, down from four insured System banks and 63 direct lender associations at December 31, 2022.

The Corporation is managed by a board of directors consisting of the same individuals as the Farm Credit Administration (FCA) board except that the chairman of the FCA board may not serve as the chairman of the Corporation's board of directors.

The Corporation must spend amounts in the Insurance Fund necessary to insure the timely payment of interest and principal on insured obligations. The Corporation, in its sole discretion, is authorized to expend amounts to provide financial assistance to System banks and direct lender associations. The Corporation may also act as receiver or conservator of a System bank or association. In addition, FCSIC has the authority to create, and the Farm Credit Administration to charter, a System bridge bank, to assist with resolving a failed bank.

As of December 31, 2023, the System banks reported amounts totaling $418 billion of insured obligations compared to $392 billion as of December 31, 2022.

When the Insurance Fund is exhausted after making payments on insured obligations, remaining System banks will be required to make payments under joint and several liability, as required by section 4.4 (a)(2) of the Farm Credit Act. The insurance provided by the Insurance Fund is limited to the resources in the Insurance Fund. System obligations are not guaranteed by the U.S. government.

Under section 5.63 of the Farm Credit Act, the Corporation is exempt from all Federal, state, and local taxes with the exception of real property taxes.

Accounting Framework:

The Corporation applies accounting and reporting standards issued by the Financial Accounting Standards Board (FASB).

Note 2: Basis of Accounting

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (GAAP) and, as such, the financial statements have been prepared using the accrual basis of accounting.

Cash and Cash Equivalents

Cash and cash equivalents include investments in U.S. Treasury obligations with original maturities of 90 days or less. At December 31, 2023, the Corporation held $2,946.3 thousand in overnight Treasury certificates maturing on January 2, 2024, with an interest rate of 5.42 percent, and approximately $293.9 thousand in cash. At December 31, 2022, the Corporation held $405.1 thousand in overnight Treasury certificates maturing on January 3, 2023, with an interest rate of 3.95 percent, and approximately 242.4 in cash.

Investments in U.S. Treasury Obligations

Section 5.62 of the Farm Credit Act requires that funds of the Corporation, not otherwise employed, shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. The Corporation has classified its investments as held-to-maturity in accordance with FASB Accounting Standards Codification (ASC) 320, *Investments - Debt and Equity Securities* and carries them at amortized cost. Amortization of premium and accretion of discount on investments has been computed under the interest method since 2002.

Premium Receivable – Concentration of Credit Risk

The Farm Credit Act requires that the System banks pay premiums to FCSIC. The premium receivable balance consists of amounts due from the four System banks and as such is exposed to risks due to concentration. Historically, FCSIC has not experienced any losses related to the premium receivable balance. FCSIC performs a quarterly analysis related to estimating an allowance for premium receivable which continues to indicate that no allowance is warranted.

Leases

Leases arise from contractual obligations that convey the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. At the inception of the contract, FCSIC determines if an arrangement contains a lease based on whether there is an identified asset and whether FCSIC controls the use of the identified asset. FCSIC also determines whether the lease classification is an operating or financing lease at the commencement date.

A right-of-use asset represents FCSIC's right to use an underlying asset and a lease liability represents FCSIC's obligation to make payments during the lease term. Right-of-use assets are recorded and recognized at commencement for the lease liability amount, adjusted for initial direct costs incurred and lease incentives received. Lease liabilities are recorded at the present value of the future lease payments over the lease term at commencement. FCSIC uses a risk-free discount rate at the lease commencement date for all new leases and at January 1, 2022 (the "Adoption date") (See "*Accounting pronouncement adopted"* paragraph below) to determine the present value of lease payments.

FCSIC's operating lease typically includes non-lease components such as common-area maintenance costs, utilities, and other maintenance costs. FCSIC has elected to include non-lease components with lease payments for the purpose of calculating lease right-of-use assets and liabilities.

FCSIC's lease terms may include options to extend or terminate the lease. FCSIC uses the base, non-cancelable, lease term when recognizing the lease assets and liabilities, unless it is reasonably certain that FCSIC will exercise those options. FCSIC's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

FCSIC does not have any short-term lease agreements.

Liability for Estimated Insurance Obligations

The liability for estimated insurance obligations is the present value of estimated probable insurance payments to be made in the future based on the Corporation's analysis of economic conditions of insured System banks.

The insured System banks' primary lending markets are borrowers engaged in farming, ranching, and producing or harvesting of aquatic products, and their cooperatives. Financial weaknesses in these market segments and the effect of general market conditions on the System's borrowers could adversely affect the banks' financial condition and profitability. Insured System banks also face risks from changing interest rate environments and the need to maintain ongoing access to financial markets. Adverse changes in the financial condition and profitability of insured System banks resulting from increased levels of credit, financial, or other risks could occur in the future which would require a liability for estimated insurance obligations to be recorded.

The Corporation actively monitors the creditworthiness and financial condition of the insured System banks. Management is not aware of any events or circumstances at this time which would require a liability for estimated insurance obligations to be recorded at December 31, 2023.

Premiums

Annual premiums are recorded as revenue during the 12-month calendar year period on which the premiums are based. All premiums are required to be paid to FCSIC on or before January 31st of the year subsequent to the year in which they are earned.

Use of Estimates

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting pronouncements adopted

In 2022, management adopted FASB Accounting Standards Updates ("ASU") No. 2016-02, *Leases* (Topic 842) ("ASU 2016-02"), and the additional ASUs issued to clarify and update the guidance in ASU 2016-02 (collectively, "ASC Topic 842"). ASC Topic 842 modifies lease accounting for lessees to increase transparency and comparability by recording lease assets and liabilities for operating leases and disclosing key information about leasing arrangements.

As of January 1, 2022, the adoption date for ASC Topic 842, FCSIC elected the package of practical expedients offered by the new standard including to (1) not reassess whether any expired or existing contracts are considered or contain leases; (2) not reassess the lease classification for any expired or existing leases; and (3) not reassess the initial direct costs for any existing leases. FCSIC does not have leases that contain land easements; therefore, this optional practical expedient was not elected. The adoption of ASC Topic 842 resulted in the recognition of total right-of-use assets and total lease liabilities of approximately $602 thousand as of January 1, 2022, related to FCSIC's existing office space lease.

Note 3: Investments in U.S. Treasury Obligations

In addition to the amounts referenced in Note 2, Cash and Cash Equivalents, at December 31, 2023 and 2022, investments in U.S. Treasury obligations, which are carried at amortized cost, consisted of the following:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2023				
U.S. Treasury obligations	$ 6,784,993	$ 27,461	$ (103,448)	$ 6,709,006
December 31, 2022				
U.S. Treasury obligations	$ 5,993,783	$ 1,722	$ (209,240)	$ 5,786,265

The fair value of FCSIC's investments in U.S. Treasury obligations have been included below for disclosure purposes only and are estimated based on quoted market prices for those instruments. The estimated fair value of U.S. Treasury obligations is measured using the Level 1 hierarchy, which is defined in the accounting standards as unadjusted quoted prices in active markets for identical assets that are available at the measurement date.

The amortized cost and estimated fair value of U.S. Treasury obligations at December 31, 2023, by contractual maturity, are shown below:

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,481,980	$ 1,454,251
Due after one year through five years	5,303,013	5,254,755
	$ 6,784,993	$ 6,709,006

The Corporation follows GAAP for measuring, reporting, and disclosing fair value. These standards apply to all assets and liabilities that are measured, reported, and/or disclosed on a fair value basis.

Note 4: Premiums, the Secure Base Amount and Excess Insurance Fund Balances

Each System bank which issues insured obligations under subsection (c) or (d) of section 4.2 of the Farm Credit Act is an insured System bank and is required to pay premiums to the Corporation.

The Farm Credit Act sets a secure base amount (SBA) for the Insurance Fund to achieve. The statutory SBA is equivalent to 2 percent of the aggregate outstanding insured obligations of all insured System banks (adjusted downward by a percentage of the guaranteed portions of principal outstanding on certain government-guaranteed loans and investments) or such other percentage as determined by the Corporation in its sole discretion to be actuarially sound to maintain in the Insurance Fund taking into account the risk of insuring outstanding insured obligations.

The Farm Credit Act requires FCSIC to assess premiums based on each bank's pro rata share of insured debt (rather than on individual loans). FCSIC may collect from 0 to 20 basis points annually on adjusted insured debt outstanding. The Farm Credit Act also authorizes a risk surcharge of up to 10 basis points on nonaccrual loans and on other-than-temporarily impaired investments. The Farm Credit Act reduces the total insured debt on which premiums are assessed by 90 percent of Federal government-guaranteed loans and investments and 80 percent of state government-guaranteed loans and investments and deducts similar percentages of such guaranteed loans and investments when calculating the secure base amount (SBA).

Insurance premium rates are reviewed at least semiannually. For 2023, the board of directors set premium accrual rates at its February 8, 2023 meeting at 18 basis points on average adjusted insured debt and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments. The board of directors again reviewed premiums at its July 12, 2023 meeting and voted to maintain the premium accrual rate on average adjusted insured debt at 18 basis points and continued the assessment of 10 basis points for nonaccrual loans and other-than-temporally impaired investments. In 2023, outstanding insured obligations increased by $26.1 billion (6.7 percent). At December 31, 2023, the total Insurance Fund was 2.03 percent of adjusted insured obligations.

For 2022, the board of directors set premium accrual rates at its January 27, 2022 meeting at 16 basis points on average adjusted insured debt and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments. The board of directors again reviewed premiums at its June 8, 2022 meeting and voted to exercise its discretion to increase the premium rate on adjusted insured debt obligations to 20 basis points for 2022 and apply the rate retroactively for the entire 2022 premium billing cycle and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments for the remainder of 2022. In 2022, outstanding insured obligations increased by $38.9 billion (11.0 percent). At December 31, 2022, the total Insurance Fund was 1.97 percent of adjusted insured obligations.

The Farm Credit Act requires if, at the end of any calendar year, the aggregate of the amounts in the Insurance Fund exceed the SBA, the Corporation is required to allocate to the Allocated Insurance Reserves Accounts (AIRAs) any excess balances less the amount that the Corporation, in its sole discretion, determines to be the sum of the estimated operating expenses and estimated insurance obligations of the Corporation for the immediately succeeding calendar year.

The total Insurance Fund exceeded the 2 percent SBA at December 31, 2023 by $127.9 million, and after subtracting planned operating expenses of $5.1 million for 2024, $122.8 million was allocated to the AIRAs. The total Insurance Fund did not exceed the 2 percent SBA at December 31, 2022, and there were no allocations to the AIRAs for the Farm Credit System banks.

The AIRAs' balances are recorded as part of the Insurance Fund until approved for payment by the Corporation's board of directors. AIRAs' balances may be used to absorb any insurance losses and claims. Furthermore, the board of directors has discretion to limit or restrict the AIRAs' payments.

Note 5: Operating Lease

The Corporation is committed under a ten-year lease with the FCS Building Association for office space expiring on November 30, 2025. The Corporation recognizes the right-of-use asset, and liability, initially measured at the present value of the lease payments. Additionally, the Corporation recognizes a single lease expense, which is allocated over the lease term, generally on a straight-line basis.

As permitted under ASC Topic 842, the Corporation has elected not to recast/restate comparative periods and to set the initial adoption application date to January 1, 2022, the beginning of the period of adoption; additionally, the Corporation has not separated lease and non-lease components under its office space lease.

Office space payments are due on the first day of every month and the Corporation paid lease payments of approximately $158 thousand for the year ended December 31, 2023. The lease contains fixed payments which increase by 2% annually and does not include a current option to extend or renew beyond the current terms.

During 2023, the Corporation recorded lease expense of approximately $159 thousand reported in the accompanying Statements of Income and Expenses and Changes in Insurance Fund

As of December 31, 2023, remaining maturities of lease liabilities approximated were as follows:

Years ending December 31, *(Dollars in thousands)*		
2024		161
2025		150
Total operating lease payments		311
Less: imputed interest		(5)
Total operating lease liabilities	$	306

Since the Corporation has only one lease as of December 31, 2023, the weighted-average lease term remaining is approximately 2 years. Because the Corporation does not have access to the rate implicit in the lease, the Corporation utilized the risk-free rate of 1.8% (the borrowing rate as of adoption date) as the discount rate. Likewise, the weighted average discount rate as of December 31, 2023 was 1.8%.

As of December 31, 2023, the Corporation recorded a right-of-use asset of approximately $300 thousand and related lease liability of approximately $306 thousand in the accompanying Statements of Financial Condition.

Note 6: Line of Credit

On September 24, 2013, the Corporation entered into an agreement with the Federal Financing Bank (the FFB), a United States government corporation subject to the supervision and direction of the U.S. Treasury. Pursuant to this agreement, as amended, the FFB would advance funds to the Corporation under certain limited circumstances. The Corporation would use these funds to increase its capacity to provide assistance to the System banks in exigent market circumstances that threaten the banks' ability to pay maturing debt obligations. The agreement provides for a short-term revolving credit facility of up to $10 billion and will remain in full force and effect until terminated by either the Corporation or the FFB. Under the agreement, each provision of funds by the FFB is subject to certain terms and conditions. The interest rate for each advance will be established by the FFB at the time the respective advance is made. Each advance cannot have a maturity date longer than twelve months. The Corporation paid no commitment fee to secure this line of credit. There were no amounts drawn on this line of credit during 2023 and 2022 and no outstanding balance due as of December 31, 2023 and 2022.

Note 7: Retirement Plan

All permanent Corporation employees are covered by the Federal Employees Retirement System (FERS). The Corporation's contribution was 18.4 percent of base pay for 2023. In addition, the Corporation automatically contributes 1 percent of base pay to the employee's Thrift Savings Plan account, matches the first 3 percent contributed by the employee, and matches one-half of the next 2 percent contributed by the employee. In 2015, the Corporation began a 401K plan for employees. The Corporation automatically contributes 1 percent of base pay to the employee's 401K account and matches the first 2 percent contributed by the employee. Retirement plan expenses amounted to $568 thousand in 2023 and $585 thousand in 2022.

Note 8: Related Parties

The Corporation purchases services from FCA under an Interagency Agreement, including examination and administrative support services. The intention of the parties as stated in the agreement is that specified rates and fees will reimburse the party providing services for all reasonable costs associated with provision of the services. The Corporation purchased services for 2023 which totaled $318 thousand, compared with $340 thousand for 2022. At December 31, 2023 and 2022, included in the accompanying Statements of Financial Condition are the amounts of $71 thousand and $29 thousand respectively which were due to FCA from the Corporation.

The Corporation may also provide services to FCA under an Interagency Agreement; however, the Corporation provided no services and recognized no revenue for 2023 and 2022. At December 31, 2023 and 2022, the Corporation did not have any receivables from FCA.

Note 9: Subsequent Events

FCSIC evaluated subsequent events from the date of the statement of financial condition through February 21, 2024, the date at which FCSIC’s financial statements were issued. No material subsequent events were identified for either recognition or disclosure.

Farm Credit System Insurance Corporation

Management's Report on Internal Control Over Financial Reporting

The Farm Credit System Insurance Corporation's (FCSIC) internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with generally accepted accounting principles in the United States of America. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America and that receipts and expenditures of FCSIC are being made only in accordance with authorizations of FCSIC management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of FCSIC's assets that could have a material effect on our financial statements.

Management of FCSIC is responsible for designing, implementing, and maintaining effective internal control over financial reporting. Management assessed the effectiveness of FCSIC's internal control over financial reporting as of December 31, 2023 using the criteria established in the *Internal Control - Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, management concluded that, as of December 31, 2023, FCSIC's internal control over financial reporting is effective, based on the COSO criteria.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

HOWARD RUBIN Digitally signed by HOWARD RUBIN Date: 2024.02.21 17:01:49 -05'00'

Howard I. Rubin
Chief Operating Officer

ANDREW GRIMALDI Digitally signed by ANDREW GRIMALDI Date: 2024.02.21 16:05:13 -05'00'

Andrew J. Grimaldi
Chief Financial Officer

POWALSKIL Digitally signed by POWALSKIL Date: 2024.02.21 16:58:32 -05'00'

Lynn M. Powalski
General Counsel

SIMONSONJ Digitally signed by SIMONSONJ Date: 2024.02.21 16:47:46 -05'00'

John F. Simonson
Chief Risk Officer

February 21, 2024

MANAGEMENT ASSURANCES

February 15, 2024

The management of the Farm Credit System Insurance Corporation is responsible for managing risk and maintaining effective internal control to meet the objectives of sections two and four of the Federal Managers' Financial Integrity Act.

FCSIC is an independent U.S. government-controlled corporation. Our primary purpose is to insure the timely payment of principal and interest on insured debt obligations issued on behalf of System banks.

The System is a nationwide government-sponsored enterprise of cooperative lending institutions owned by the agricultural and rural customers it serves. By protecting investors, we help maintain a dependable source of funds for the farmers, ranchers, and other borrowers of the System.

FCSIC actively monitors and manages insurance risk to minimize the Farm Credit Insurance Fund's exposure to potential losses. When appointed by the Farm Credit Administration, we also serve as receiver or conservator of any System bank or association.

Our management has completed an assessment of the effectiveness of FCSIC's enterprise risk management and internal control systems in effect during 2023 in accordance with guidelines provided by the Office of Management and Budget (OMB) in consultation with the comptroller general (OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control). The objective of these controls and systems is to provide reasonable assurance that

- obligations and costs comply with applicable laws;
- assets are safeguarded against waste, fraud, unauthorized use, and mismanagement;
- revenues and expenditures applicable to our operations are recorded and accounted for properly; and
- financial and statistical reports are reliable, complete, and timely.

On the basis of established guidelines and the assessment performed, we can provide reasonable assurance that internal control over operations, reporting, and compliance was operating effectively as of December 31, 2023.

In addition, as stated in the accompanying report, FCSIC's independent auditor, Sikich CPA, LLC, indicated that the financial statements of the Farm Credit Insurance Fund as of December 31, 2023, are fairly presented in all material respects. They also conducted testing on the effectiveness of FCSIC's internal control over financial reporting and issued an opinion that it was effective in all material aspects.

Jeffery S. Hall
Chairman

Howard I. Rubin
Chief Operating Officer

Andrew J. Grimaldi
Chief Financial Officer

Lynn M. Powalski
General Counsel

John F. Simonson
Chief Risk Officer

COMPLIANCE WITH THE FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENT ACT IMPROVEMENTS ACT OF 2015

FCSIC has authority under section 5.65(c) of the Farm Credit Act (12 U.S.C. 2277a-14) to impose civil money penalties against a Farm Credit System bank that willfully fails or refuses to file any certified statement or pay any required premium.

In addition, section 5.65(d) of the Farm Credit Act prohibits any person convicted of any criminal offense involving dishonesty or a breach of trust to serve as a director, officer, or employee of any System institution, except with the prior written consent of FCA. This section also authorizes FCSIC to recover penalties for a willful violation of this prohibition. Sections 5.65(c) and (d) provide for a penalty of not more than $100 for each day during which the violation continues.

The Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (the 2015 Act) amended the Federal Civil Penalties Inflation Adjustment Act of 1990 (28 U.S.C. 2461 note) to provide for regular evaluation of civil penalties. It also required every applicable federal agency to adopt, through an interim final rule, a one-time catch-up adjustment to be effective no later than August 1, 2016, with annual adjustments thereafter.

On January 18, 2023, FCSIC published a final rule making the annual adjustment required by the 2015 Act. The 2023 adjustment increased our civil money penalties to not more than $249 for each day during which a violation continues (88 Fed. Reg. 2812). On January 10, 2024, we published a final rule making the required annual adjustment for 2024. This adjustment increased our civil money penalties to not more than $257 for each day during which a violation continues (89 Fed. Reg. 1445).

PERFORMANCE MANAGEMENT PROGRAM

FCSIC's mandate is to insure the timely payment of principal and interest on insured Farm Credit System debt securities and to serve as receiver or conservator when appointed by the Farm Credit Administration board. To fulfill our mandate, we have three fundamental program goals:

- Manage the Insurance Fund to protect investors
- Monitor, evaluate, and report insurance risk
- Maintain the capability to manage assistance requests, receiverships, and conservatorships

We have implemented performance measures to help us evaluate the effectiveness of these goals. It is important to note that some of these measures use management estimates that may be affected by the performance and condition of System institutions. Also, unforeseen events may have a material effect on performance measures over time.

Performance Measures

1. Manage the Farm Credit Insurance Fund to maintain the secure base amount to provide protection for investors and taxpayers against identified risks

We adjust insurance premium assessments when appropriate and manage assets to optimize investment returns to build and maintain the Insurance Fund at the statutory 2% secure base amount. At the same time, we must maintain appropriate liquidity to carry out our mission.

We assess the effectiveness of our performance in achieving this goal through the following:

- Reviewing semiannually the need for adjustments to insurance premium assessments
- Measuring investment performance by comparing the portfolio's average yield with peer investment funds that have similar investment parameters for quality and maturity
- Comparing the level of the Insurance Fund every month with the secure base amount and reporting the results to the board of directors

Our ability to maintain the Insurance Fund at the secure base amount may be affected by events beyond our control, such as insurance losses.

2. Monitor, evaluate, and report risks that could generate losses to the Insurance Fund

We measure progress toward this program goal by how promptly we detect emerging problems and how effectively we minimize insurance losses. We use financial indicators to monitor conditions and trends, and we analyze and report data before losses become likely. In periods when there are insurance claims or the probability of claims, the ratio of estimated losses to actual losses helps measure our ability to assess prospective loss exposure.

As guidance, our management uses criteria specified in our policy statement on allowance for Insurance Fund loss and in the Financial Accounting Standards Board's Accounting Standards Topic 450, Contingencies. Timely evaluation of the Insurance Fund's risk exposure is critical to preserving the Insurance Fund's solvency. We use FCA reports of examination to evaluate risks to the Insurance Fund. When necessary, we independently examine and require information from System institutions.

3. Maintain the capability to manage assistance requests, receiverships, and conservatorships

FCSIC has statutory authority to provide financial assistance to System institutions, including loans. Any assistance agreement is subject to the board's approval. We have a policy statement on assistance, and we have adopted procedures for providing assistance in a liquidity crisis. We measure effectiveness by periodically testing our procedures and updating our policy statement so that we remain ready to provide financial assistance in a timely and cost-effective manner.

We are required to serve as receiver or conservator of System banks and associations when appointed by FCA. This program goal requires us to maintain readiness through periodic staff training and evaluation of support capabilities. We must ensure that we have the resources we need to manage receiverships or conservatorships in case the need arises.

We use the following measures to determine the effectiveness of our receivership operations:

- Timeliness of initial processing of all claims (Processing should occur within a period of time warranted by the size and complexity of each case.)
- The ratio of operating costs to total assets
- The ratio of actual asset recovery returns to net realizable asset values

We did not have any assistance requests and were not appointed as a receiver or conservator in 2023.

Strategic Goals and Objectives

The Government Performance and Results Act of 1993, as amended, requires most federal government organizations to report on the results of program performance. Performance results are included in regular reports to the board of directors and in our annual report. Information for each of the three major program areas is presented in Table 4.

Table 4

Strategic Goals and Objectives by Program Area

FCSIC's Mission	Program Areas	Strategic Goals	Strategic Objectives	For More Information
Protect investors in insured Farm Credit System obligations and taxpayers through sound administration of the Insurance Fund. Exercise its authorities to minimize Insurance Fund loss. Help ensure the future of a permanent system for delivery of credit to agricultural borrowers.	Insurance Fund management	Manage the Insurance Fund to maintain the secure base amount to provide protection for investors and taxpayers against identified risks.	1. Manage the Insurance Fund to ensure adequate liquidity while optimizing investment returns and ensuring premium collections and refunds reflect anticipated changes in adjusted insured debt levels and potential insurance claims. 2. Use actuarial tools to evaluate the adequacy of investor protections and risk exposures to the Insurance Fund. 3. Ensure that System banks have adequate temporary liquidity in situations where external market factors make normal debt market access extremely doubtful. 4. Communicate accurate and easily understood information about the insurance program to the public, insured investors, and System institutions.	See pages 19—24 for 2023 results.
	Risk management	Monitor, evaluate, and report risks that could generate losses to the Insurance Fund.	1. Use analytical models and other risk management tools and processes to identify and respond to potential risks to the Insurance Fund. Conduct trend analysis on the System's growth, funding needs, condition, and performance. Regularly report to the board of directors on identified risk exposures. 2. Monitor conditions in the agricultural and financial sectors that may affect insurance risk and integrate the results into the process for setting annual insurance premium rates.	See pages 27—32 for 2023 results.
	Receivership / conservatorship	Effectively manage assistance requests, receiverships, and conservatorships.	1. Subject to the provisions of the Farm Credit Act, including the least-cost test, provide assistance when appropriate to a troubled System bank or association. 2. Ensure receiverships and conservatorships are managed to fulfill the purposes of the Farm Credit Act and protect creditors and are terminated in an orderly and timely manner.	See pages 33—34 for 2023 results.

GLOSSARY

Farm Credit Act — The Farm Credit Act of 1971, as amended, (12 U.S.C. 2001 et seq.) is the statute under which the Farm Credit System, FCSIC, and the Farm Credit Administration operate.

Farm Credit Administration (FCA) — FCA was established in 1933 to regulate the System. It is governed by a three-member presidentially appointed board. To ensure the safety and soundness of the System, FCA examines and supervises System institutions and develops regulations to govern them.

Federal Farm Credit Banks Funding Corporation — Based in Jersey City, New Jersey, the Funding Corporation manages the sale of Systemwide debt securities to finance the loans made by System institutions. It uses a network of bond dealers to market the System's securities.

Financial Institution Rating System (FIRS) — The FIRS is similar to the Uniform Financial Institutions Rating System used by other federal banking regulators except that the FIRS reflects the nondepository nature of System institutions. The FIRS provides a general framework for assimilating and evaluating all significant financial, asset quality, and management factors to assign a composite rating to each System institution. The ratings are described below.

> ***Rating 1*** — Institutions in this group are basically sound in every respect; any negative findings or comments are of a minor nature and are anticipated to be resolved in the normal course of business. Such institutions are well managed, resistant to external economic and financial disturbances, and more capable of withstanding the uncertainties of business conditions than institutions with lower ratings. Each institution in this category exhibits the best performance and risk management practices for its size, complexity, and risk profile. These institutions give no cause for regulatory concern.
>
> ***Rating 2*** — Institutions in this group are fundamentally sound but may reflect modest weaknesses correctable in the normal course of business. Because the nature and severity of deficiencies are not material, such institutions are stable and able to withstand business fluctuations. Overall risk management practices are satisfactory for the size, complexity, and risk profile of each institution in this group. While areas of weakness could develop into conditions of greater concern, regulatory response is limited to the extent that minor adjustments are resolved in the normal course of business, and operations continue in a satisfactory manner.
>
> ***Rating 3*** — Institutions in this category exhibit a combination of financial, management, operational, or compliance weaknesses ranging from moderately severe to unsatisfactory. When weaknesses relate to asset quality or financial condition, these institutions may be vulnerable to the onset of adverse business conditions and could easily deteriorate if weaknesses are not corrected. Institutions that are in significant noncompliance with laws and regulations may also be given this rating. Risk management practices are less than satisfactory for the size, complexity, and risk profile

of each institution in this group. Institutions in this category generally give cause for regulatory concern and require more than normal supervision to address deficiencies. Overall strength and financial capacity, however, still make failure only a remote possibility if corrective actions are taken.

Rating 4 — Institutions in this group have an immoderate number of serious financial or operating weaknesses. Serious problems or unsafe and unsound conditions exist that are not being satisfactorily addressed or resolved. Unless effective actions are taken to correct these conditions, they are likely to impair future viability or constitute a threat to the interests of investors, borrowers, and stockholders. Risk management practices are generally unacceptable for the size, complexity, and risk profile of each institution in this group. A potential for failure is present but is not yet imminent or pronounced. Institutions in this category require close regulatory attention, financial surveillance, and a definitive plan for corrective action.

Rating 5 — This category is reserved for institutions with an extremely high, immediate, or near-term probability of failure. The number and severity of weaknesses or unsafe and unsound conditions are so critical as to require urgent external financial assistance. Risk management practices are inadequate for the size, complexity, and risk profile of each institution in this group. In the absence of decisive corrective measures, these institutions will likely require liquidation or some form of emergency assistance, merger, or acquisition.

Government-sponsored enterprise (GSE) — A GSE is typically a federally chartered corporation created by Congress that is privately owned, designed to provide a source of credit nationwide, and limited to servicing one economic sector. Each GSE has a public or social purpose. GSEs are usually created because the private markets did not satisfy a purpose that Congress deems worthy — either to fill a credit gap or to enhance competitive behavior in the loan market. Each is given certain features or benefits (called GSE attributes) to allow it to overcome the barriers that prevented purely private markets from developing. The System is the oldest financial GSE.

ACRONYMS AND ABBREVIATIONS

AIRAs	allocated insurance reserves accounts
CIPA	Contractual Interbank Performance Agreement
Farm Credit Act	Farm Credit Act of 1971, as amended
FCA	Farm Credit Administration
FCSIC	Farm Credit System Insurance Corporation
FDIC	Federal Deposit Insurance Corporation
FIRS	Financial Institution Rating System
Funding Corporation	Federal Farm Credit Banks Funding Corporation
NCUA	National Credit Union Administration
OMB	Office of Management and Budget
System	Farm Credit System
URE	unallocated retained earnings
USDA	United States Department of Agriculture

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