AgSouth Farm Credit, ACA

FIRST QUARTER 2023

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2023 quarterly report of AgSouth Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Vance C Dalton Jr

Vance C. Dalton, Jr.
Chief Executive Officer

Bo Fennell
Chief Financial Officer

H. Frank Ables, Jr.
Chairman of the Board

May 9, 2023

AgSouth Farm Credit, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and affected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

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 the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2023. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of March 31, 2023, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2023.

Vance C Dalton Jr

Vance C. Dalton, Jr.
Chief Executive Officer

Bo Fennell
Chief Financial Officer

May 9, 2023

AgSouth Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended March 31, 2023. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2022 Annual Report of AgSouth Farm Credit, ACA. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a wide range of agricultural commodities produced in our region, including timber, poultry (broilers, turkeys and eggs), sod, nursery and horticulture, cotton, feed grains, soybeans and hay, beef cattle, horses, peanuts, blueberries, fruits, and nuts. Loans to producers of these commodities total $1,784,815 or 85.88 percent of the Association's portfolio. Farm size varies, and many of the Association's customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

AGRICULTURE OVERVIEW

Three of the top agricultural commodities by repayment source in the AgSouth Farm Credit, ACA portfolio are broilers, timber, and cotton. The purpose of this section is to give an overview of the top three agricultural commodities and special mention to other commodity groups as needed.

Broilers - In the *National Agriculture Statistics Service Report* (NASS) for the week ending March 25, 2023, domestic broiler growers placed 187 million chicks for meat production which is down slightly from a year ago. In Georgia, 27.3 million broiler chicks were placed. South Carolina had 4.4 million broiler chicks placed.

Timber - According to the TimberMart-South *Quarterly Market Bulletin ~ 1st Quarter* south-wide average stumpage prices decreased for all five major products. Pine sawtimber prices are down 7 percent from a year ago and pine chip-n-saw is down 14 percent. Housing starts, year to date in February, were behind totals for the same period a year ago, but home improvement expenditures were the highest on record for this period.

Cotton - Planting has not yet started for cotton in Georgia or South Carolina as farmers have been preparing fields. According to the NASS *Prospective Planting Report* dated March 31, 2023, cotton plantings are estimated at 1.2 million acres in Georgia and 240,000 acres in South Carolina. That represents a 7 percent decrease in Georgia and 11 percent decrease in South Carolina.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of March 31, 2023 was $2,078,260 a decrease of $3,898 or less than one percent compared to $2,082,158 at December 31, 2022. Net loans outstanding at March 31, 2023 were $2,065,793 as compared to $2,067,878 at December 31, 2022. Net loans accounted for 96.35 percent of total assets at March 31, 2023, as compared to 95.82 percent of total assets at December 31, 2022.

The decrease in gross loan volume during the reporting period is attributed to payments and payoffs on operating lines of credit and term loans. Advances on operating lines are now being processed and growth in the portfolio is anticipated in the second quarter of 2023. Competition for good quality loans remains strong from some commercial banks, but the Association has remained competitive in a difficult rate environment.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

At March 31, 2023 Investments in debt securities totaled $3,493, a decrease of $55 from December 31, 2022. The 1.55 percent decrease is from payments received in 2023. At December 31, 2022 the Association held Investments in debt securities totaling $3,548. These investments are Rural America Bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration (FCA).

There is an inherent risk in the extension of any type of credit. Portfolio credit quality is at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from $14,323 at December 31, 2022 to $10,815 at March 31, 2023. The balance of nonaccrual loans is increased by transfers to nonaccrual status offset by liquidations, loans returning to accrual status, or transfer of assets to other property owned. Association staff is working diligently to work out all nonaccrual debt situations, and additional transfers may occur as the economy remains sluggish.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2023 was $12,467 compared to $14,280 at December 31, 2022 and was considered by management to be adequate to cover possible losses. Although management has not recognized any direct decline in credit quality, an adjustment to the qualitative factors seemed prudent given the financial climate. The reserve set aside for unfunded commitments is $201 which is a decrease of $39 compared to the total at December 31, 2022 of $240. The reserve for unfunded commitments is included in Other liabilities. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of executive management and staff assigned to special assets management, met in March 2023 to review the allowance account. The ALCO determines the composition between the allowance for loan losses on the outstanding portfolio and the reserve required for unfunded commitments. The ALCO considered the general economic conditions, the potential for deterioration in the existing portfolio, the loan growth in the portfolio, and the amount of outstanding loan commitments in determining the level of allowance.

As of the end of the first quarter of 2023, the Association had originated $38,861 in loans for the secondary market. Originations for the same period 2022 were $80,357. The 51.64 percent decrease is due to increased mortgage rates which have slowed down home purchases and construction. As of March 31, 2023 the Association held $724 in qualifying Loans held for sale. At December 31, 2022 loans held for sale totaled $815.

Accrued interest receivable decreased $398 or 2.22 percent from $17,902 as of December 31, 2022 to $17,504 as of March 31, 2023. The decrease is related to lower loan volume at March 31, 2023 compared to December 31, 2022.

Equity investments in other Farm Credit institutions increased from $29,476 at December 31, 2022 to $29,546 at March 31, 2023. The increase of $70 or less than one percent is the result of a higher balance of investment in other Farm Credit institutions, which varies based on participations sold on a patronage basis.

Premises and equipment, net increased $222 from $19,757 at December 31, 2022 to $19,979 at March 31, 2023. The primary reason for the increase of 1.12 percent is due to the purchase of Association vehicles.

Accounts receivable decreased $11,402 from $15,715 at December 31, 2022 to $4,313 at March 31, 2023. The decrease is the result of the patronage distribution receivable at December 31, 2022 from AgFirst and other Farm Credit institutions, which totaled $15,129 in regular distribution. As of March 31, 2023 this line item included one quarter of patronage accrual from AgFirst and other Farm Credit institutions totaling $3,736.

Other assets increased from $2,218 at December 31, 2022 to $2,544 at March 31, 2023. The majority of other assets is made up of the Nonqualified Deferred Benefit Pension Plan which totaled $1,313 as of March 31, 2023.

On the liability side of the balance sheet, Notes payable to AgFirst Farm Credit Bank decreased from $1,643,799 at December 31, 2022 to $1,632,663 at March 31, 2023. The $11,136 or less than one percent decrease is tied to the decrease in loans outstanding.

Accrued interest payable decreased $111, or 2.42 percent, from $4,593 at December 31, 2022 to $4,482 at March 31, 2023. The decrease is due to the decrease in the notes payable balance outstanding.

Patronage refunds payable decreased $32,550 from $33,187 at December 31, 2022 to $637 at March 31, 2023. The decrease is the result of the 2022 All Cash Patronage Distribution on the Association's records at December 31, 2022 moving from Patronage refund payable to Other liabilities. This amount totaled $33,000 at December 31, 2022. Checks were mailed to customers during the first quarter of 2023. No patronage distribution had been declared for 2023 as of March 31, 2023.

Accounts payable decreased $1,952 from $3,941 at December 31, 2022 to $1,989 at March 31, 2023. The 49.53 percent decrease is due to the payable established to pay the insurance premiums on loans to the Farm Credit System Insurance Corporation (FCSIC). At December 31, 2022 the payable related to the FCSIC totaled $2,971, and at March 31, 2023 the payable was $676.

Other liabilities increased $44,867 from $14,210 at December 31, 2022 to $59,077 at March 31, 2023. The 315.74 percent increase is due to the 2022 All Cash Patronage Distribution and the revolvement of the 2017 series allocated surplus checks that were distributed to Association members. This balance will decrease as checks are presented at the commercial bank.

Capital stock and participation certificates increased from $11,243 at December 31, 2022 to $11,286 at March 31, 2023. The increase of $43 or less than one percent is due to new borrowers purchasing stock during the reporting period in excess of liquidations of stock when loans pay out.

Allocated surplus decreased from $101,191 at December 31, 2022 to $78,664 at March 31, 2023. This is a decrease of $22,527 or 22.26 percent. The reduction is from the decision made by the Board of Directors to revolve the 2017 series of allocated surplus in January 2023.

Unallocated surplus increased $8,704 or 2.51 percent from the December 31, 2022 balance of $346,152. The balance of $354,856 at March 31, 2023 includes the retention of a portion of 2022 fiscal year end earnings and earnings year to date in 2023.

Accumulated other comprehensive income increased $729 or 213.16 percent from the December 31, 2022 loss balance of $342. At March 31, 2023 there was a balance of $387.

RESULTS OF OPERATIONS

For the three months ended March 31, 2023

Net income for the three months ended March 31, 2023 totaled $6,519 as compared to $13,091 for the same period in 2022. This is a decrease of $6,572 or 50.20 percent. Comprehensive income for the three months ended March 31, 2023 was $7,248 compared to $13,221 for the same period in 2022. Employee benefit plans adjustments are responsible for the difference between comprehensive income and net income. The following commentary explains the variance.

At March 31, 2023 interest income on loans increased $4,058 from $26,714 at March 31, 2022 to $30,772 at March 31, 2023. This increase of 15.19 percent is primarily due to an increase in interest rates between the two reporting periods.

For the three months ended March 31, 2023 interest income on investments totaled $60 compared to $63 for the three months ended March 31, 2022. Investment income declined $3 or 4.76 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense for the three months ended March 31, 2023 increased $3,070 from $9,757 at March 31, 2022 to $12,827 at March 31, 2023. The variance of 31.46 percent is due to an increase in the weighted average direct note rate between the two reporting periods.

Net interest income before the provision of allowance for loan losses increased $985 for the three months ended March 31, 2023 as compared to the same period in 2022. The increase is due primarily to the higher interest income between the two reporting periods.

Net interest income after the provision of allowance for loan losses decreased $2,957 during the quarter ending March 31, 2023 compared to March 31, 2022. A provision of allowance for loan losses of $2,891 was made in the quarter ending March 31, 2023. The provision of allowance for loan losses entry represents an adjustment between the general provision and the unfunded commitments provision which is booked to Other liabilities.

Noninterest income decreased $1,190 over the same period last year. The commentary that follows will detail the aggregate difference.

Loan fees decreased $459 or 35.25 percent, due to lesser originations on the the secondary mortgage market compared to March 31, 2022.

Fees for financially related services decreased $143 from $646 at March 31, 2022 to $503 at March 31, 2023. The decrease of 22.14 percent is due to the decrease in crop insurance and leasing services income earned during the reporting period.

Patronage refunds from other Farm Credit institutions increased $96 from $3,752 at March 31, 2022 to $3,848 at March 31, 2023. The increase of 2.56 percent is due to an increase in patronage distribution from AgFirst on participations sold. See *Note 2* for more information.

Gains on the sale of rural home loans decreased $561 from $970 at March 31, 2022 compared to $409 at March 31, 2023. The decrease is due to the decrease in volume of Secondary Mortgage Markets sold.

Gains on the sale of premises and equipment, net for the period ending March 31, 2023 totaled $119 compared to $92 for the period ending March 31, 2022. The Association sold more fleet vehicles in 2022 compared to 2023.

Gains on other transactions totaled $0 at March 31, 2023 compared to Gains on other transactions of $243 at March 31, 2022. This difference is due to the reclassification of the provision for unfunded commitments.

Other noninterest income was $255 during the three months ended March 31, 2023 compared to $162 for the three months ending March 31, 2022. This line item consists of fees received from Secondary Mortgage Market referrals and settlement fund payments received.

Noninterest expense for the three months ended March 31, 2023 totaled $14,571 and increased $2,416 or 19.88 percent when compared to $12,155 for the same period of 2022. Salaries and employee benefits expense is the largest portion of noninterest expense and totaled $8,688 for the three months ended March 31, 2023. Salaries and employee benefits decreased $344 between the two reporting periods. There is a 3.81 percent variance between the two reporting periods due to the decrease in commissions and corporate bonuses paid out during the quarter.

Occupancy and equipment expense at March 31, 2023 was $812 compared to $509 for the same period in 2022. This is an increase of $303 or 59.53 percent. The increase is tied to operating lease expenses.

The Insurance Fund premiums at March 31, 2023 were $676 and at March 31, 2022 were $571. The $105 or 18.39 percent increase is due to the higher premium assessment rate in 2023.

Purchased Services at March 31, 2023 were $1,317 and at March 31, 2022 were $435. The $882 or 202.76 percent increase is due to merger related expenses.

Data processing expense at March 31, 2023 was $134 compared to $135 for the same period in 2022. This is a decrease of $1 or less than one percent.

Other operating expenses increased $1,460 from $1,484 at March 31, 2022 compared to $2,944 at March 31, 2023. The increase of 98.38 percent is attributed to an increase in retirement expense, directors expense, travel, Association vehicles, and marketing activities.

In the three months ending March 31, 2023 the Association experienced $0 Gains/Losses on the sale of other property owned. During the same period of 2022, the Association booked Gains on the sale of other property owned of $11. The gain is the result of sales exceeding any write-downs during the third quarter.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2023 was $1,632,663 as compared to $1,643,799 at December 31, 2022. The $11,136 decrease or less than one percent, is directly tied to the decrease in loan volume.

CAPITAL RESOURCES

Total members' equity at December 31, 2022 totaled $458,244. At March 31, 2023 total members' equity had decreased by $13,051 to $445,193. The decrease in total members' equity is due to an decrease in Allocated retained earnings between the two reporting periods. At December 31, 2022 Allocated retained earnings totaled $101,191 compared to $78,664 at March 31, 2023. The decrease is due to the revolvement of the 2017 series of allocated surplus in the first quarter of 2023. At December 31, 2022 Unallocated retained earnings totaled $346,152 and increased to $354,856. The increase in Unallocated retained earnings is due to the decision to retain a portion of the 2022 earnings for capital purposes and year to date 2023 earnings.

Total Capital stock and participation certificates were $11,286 on March 31, 2023 compared to $11,243 on December 31, 2022. The increase is attributed to the purchase of new stock and participation certificates for new borrowing entities offset by the retirement of stock and participation certificates on loans liquidated in the normal course of business.

The Association's capital ratios are calculated in accordance with FCA regulations, as follows:

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated

debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The Association's regulatory capital ratios are shown in the following table:

Ratio	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2023
Risk-adjusted ratios:		
CET1 Capital	7.00%	16.32%
Tier 1 Capital	8.50%	16.32%
Total Capital	10.50%	21.71%
Permanent Capital Ratio	7.00%	21.24%
Non-risk-adjusted:		
Tier 1 Leverage Ratio	5.0%	16.02%
UREE Leverage Ratio	1.5%	15.48%

REGULATORY MATTERS

On April 14, 2022, the FCA approved a final rule that amends certain regulations to address changes in accounting principles generally accepted in the United States. Such changes reflect the Current Expected Credit Losses (CECL) methodology that replaced the incurred loss methodology upon adoption. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities are included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets are not eligible for inclusion in a System institution's Tier 2 capital. The regulation did not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. In addition, the regulation did not include an exclusion for the CECL day 1 cumulative effective adjustment from the "safe harbor" deemed prior approval provision. The final rule became effective on January 1, 2023.

On August 26, 2021, the FCA issued a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the increased risk posed by HVCRE exposures. The public comment period ended on January 24, 2022.

LIBOR Transition

The Association has exposure to LIBOR arising from loans made to customers and Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf.

The FCA has issued guidelines with similar guidance as the US prudential regulators but applicable for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure, stop the inflow of new LIBOR volume, and adjust operating processes to implement alternative reference rates.

The Association has implemented LIBOR transition plans and continues to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks. See the Association's 2022 Annual Report for further discussion on the LIBOR transition.

The following is a summary of outstanding variable-rate financial instruments tied to LIBOR at March 31, 2023:

(dollars in thousands)	Due in 2023 and Thereafter	Total
Loans	$ 4,646	$ 4,646
Total Assets	$ 4,646	$ 4,646
Note Payable to AgFirst Farm Credit Bank	$ 4,308	$ 4,308
Total Liabilities	$ 4,308	$ 4,308

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after June 30, 2023 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2022 Annual Report to Shareholders for recently adopted accounting pronouncements. Additional information on new and pending Updates is provided in the following table.

There were no ASUs issued by the Financial Accounting Standards Board (FASB) during the quarter that impacted the Association's Financial Statements.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, ***www.agfirst.com***. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-633-9091, ext. 2674, writing Bo Fennell, CFO, AgSouth Farm Credit, ACA, P.O. Box 718, Statesboro, GA 30459, or accessing the Association's website ***www.agsouthfc.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual report to Shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Reports of suspected or actual wrongdoings involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (NAVEX Global) at 1-833-220-9744 or ***www.agsouth.ethicspoint.com***.

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)		**March 31, 2023**		**December 31, 2022**
		(unaudited)		*(audited)*
Assets				
Cash	**$**	**145**	$	665
Investments in debt securities:				
Held to maturity (fair value of $3,353 and $3,352, respectively)		**3,493**		3,548
Loans		**2,078,260**		2,082,158
Allowance for loan losses		**(12,467)**		(14,280)
Net loans		**2,065,793**		2,067,878
Loans held for sale		**724**		815
Accrued interest receivable		**17,504**		17,902
Equity investments in other Farm Credit institutions		**29,546**		29,476
Premises and equipment, net		**19,979**		19,757
Accounts receivable		**4,313**		15,715
Other assets		**2,544**		2,218
Total assets	**$**	**2,144,041**	$	2,157,974
Liabilities				
Notes payable to AgFirst Farm Credit Bank	**$**	**1,632,663**	$	1,643,799
Accrued interest payable		**4,482**		4,593
Patronage refunds payable		**637**		33,187
Accounts payable		**1,989**		3,941
Other liabilities		**59,077**		14,210
Total liabilities		**1,698,848**		1,699,730
Commitments and contingencies (Note 8)				
Members' Equity				
Capital stock and participation certificates		**11,286**		11,243
Retained earnings				
Allocated		**78,664**		101,191
Unallocated		**354,856**		346,152
Accumulated other comprehensive income (loss)		**387**		(342)
Total members' equity		**445,193**		458,244
Total liabilities and members' equity	**$**	**2,144,041**	$	2,157,974

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

AgSouth Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended March 31, 2023	2022
Interest Income		
Loans	**$ 30,772**	$ 26,714
Investments	**60**	63
Total interest income	**30,832**	26,777
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**12,827**	9,757
Total interest expense	**12,827**	9,757
Net interest income	**18,005**	17,020
Provision for (reversal of) allowance for credit losses	**2,891**	(1,051)
Net interest income after provision for (reversal of) allowance for credit losses	**15,114**	18,071
Noninterest Income		
Loan fees	**843**	1,302
Fees for financially related services	**503**	646
Patronage refunds from other Farm Credit institutions	**3,848**	3,752
Gains (losses) on sales of rural home loans, net	**409**	970
Gains (losses) on sales of premises and equipment, net	**119**	92
Gains (losses) on other transactions	**—**	243
Other noninterest income	**255**	162
Total noninterest income	**5,977**	7,167
Noninterest Expense		
Salaries and employee benefits	**8,688**	9,032
Occupancy and equipment	**812**	509
Insurance Fund premiums	**676**	571
Purchased services	**1,317**	435
Data processing	**134**	135
Other operating expenses	**2,944**	1,484
(Gains) losses on other property owned, net	**—**	(11)
Total noninterest expense	**14,571**	12,155
Income before income taxes	**6,520**	13,083
Provision (benefit) for income taxes	**1**	(8)
Net income	**$ 6,519**	$ 13,091
Other comprehensive income net of tax		
Employee benefit plans adjustments	**729**	130
Comprehensive income	**$ 7,248**	$ 13,221

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

AgSouth Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2021	$ 11,107	$ 121,081	$ 317,250	$ (1,934)	$ 447,504
Comprehensive income			13,091	130	13,221
Capital stock/participation certificates issued/(retired), net	29				29
Retained earnings retired		(19,831)			(19,831)
Balance at March 31, 2022	$ 11,136	$ 101,250	$ 330,341	$ (1,804)	$ 440,923
Balance at December 31, 2022	**$ 11,243**	**$ 101,191**	**$ 346,152**	**$ (342)**	**$ 458,244**
Cumulative effect of change in accounting principle			**2,185**		**2,185**
Comprehensive income			**6,519**	**729**	**7,248**
Capital stock/participation certificates issued/(retired), net	**43**				**43**
Retained earnings retired		**(22,533)**			**(22,533)**
Patronage distribution adjustment		**6**			**6**
Balance at March 31, 2023	**$ 11,286**	**$ 78,664**	**$ 354,856**	**$ 387**	**$ 445,193**

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

AgSouth Farm Credit, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization
The accompanying financial statements include the accounts of AgSouth Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2022, are contained in the 2022 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation
In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies
The Association's accounting and reporting policies conform with US generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for credit losses (Note 2, *Loans and Allowance for Credit Losses*) and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Effective During the Period
The Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to current expected credit losses (CECL) on January 1, 2023. This guidance replaced the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost and certain off-balance sheet credit exposures. This guidance requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance for credit losses related to these securities, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves.

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

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

	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for credit losses on loans	$ 14,280	$ (2,157)	$ 12,123
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 240	$ (28)	$ 212
Retained earnings:			
Unallocated retained earnings	$ 346,152	$ 2,185	$ 348,337

As more fully described in the 2022 Annual Report, the Association may hold additional investments in accordance with other investment programs approved by the Farm Credit Administration (FCA). These programs allow the institution to make investments that further the mission to support rural America. Upon adoption of CECL guidance, the investments held-to-maturity are presented net of an allowance for credit losses on investments. As part of the Association's implementation of the standard, it was determined that there would not be a material impact to the Association's investment portfolio and as a result, there was no ACL on investments recorded.

Loans and Allowance for Credit Losses

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

Nonaccrual Loans

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

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

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

Accrued interest receivable

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral dependent loans

Collateral dependent loans are loans secured by collateral, including but not limited to agricultural real estate, crop inventory, equipment and livestock. CECL requires an entity to measure the expected credit losses based on fair value of the collateral at the reporting date when the entity determines that foreclosure is probable. Additionally, CECL allows a fair value practical expedient as a measurement approach for loans when the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulties. Under the practical expedient measurement approach, the expected credit loss is based on the difference between the fair value of the collateral less estimated costs to sell and the amortized cost basis of the loan.

Allowance for Credit Losses

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

- the allowance for credit losses on loans (ACLL)
- the allowance for unfunded commitments, which is presented on the Consolidated Balance Sheets in Other Liabilities, and
- (if applicable) the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Consolidated Balance Sheets.

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

Methodology for Allowance for Credit Losses on Loans

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

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

Asset-specific loans are generally collateral-dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For an asset-specific loan, expected credit losses are measured as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with the Association's appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed or non-recoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses.

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

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

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

The Association's macroeconomic forecast includes a weighted selection of the Moody's baseline, upside 10^{th} percent and downside 90^{th} percent over reasonable and supportable forecast periods of three years. Subsequent to the forecast period, the Association reverts to long run historical loss experience beyond two years gradually after the determined forecast horizon using a transition function to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts incorporate macroeconomic variables, including unemployment rates, Dow Jones Total Stock Market Index and corporate bond spreads. Also considered are loan and borrower characteristics, such as internal risk ratings, delinquency status, collateral type, and the remaining term of the loan, adjusted for expected prepayments.

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

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

Allowance for Credit Losses on Unfunded Commitments

The Association evaluates the need for an allowance for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and included in Other Liabilities on the Consolidated Balance Sheets. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the Association and applying the loss factors used in the ACLL methodology to the results of the usage calculation. No allowance for credit losses is recorded for commitments that are unconditionally cancellable.

Note 2 — Loans and Allowance for Credit Losses

A summary of loans outstanding at period end follows:

	March 31, 2023	December 31, 2022
Real estate mortgage	$ 1,643,510	$ 1,637,408
Production and intermediate-term	289,679	296,885
Agribusiness:		
Processing and marketing	20,329	21,079
Farm-related business	22,118	21,789
Rural residential real estate	102,473	104,842
Other:		
Other (including Mission Related)	151	155
Total loans	$ 2,078,260	$ 2,082,158

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present the principal balance of participation loans at periods ended:

	March 31, 2023							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,560	$ 125,559	$ 307	$ 7,516	$ –	$ –	$ 9,867	$ 133,075
Production and intermediate-term	10,513	90,228	623	–	3,464	–	14,600	90,228
Agribusiness	4,852	111,920	–	18,992	–	–	4,852	130,912
Total	$ 24,925	$ 327,707	$ 930	$ 26,508	$ 3,464	$ –	$ 29,319	$ 354,215

	December 31, 2022							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,664	$ 124,009	$ 313	$ 7,516	$ –	$ –	$ 9,977	$ 131,525
Production and intermediate-term	5,239	75,886	629	–	3,584	–	9,452	75,886
Agribusiness	4,709	122,661	–	19,370	–	–	4,709	142,031
Total	$ 19,612	$ 322,556	$ 942	$ 26,886	$ 3,584	$ –	$ 24,138	$ 349,442

The following table shows the loans, classified under the FCA Uniform Loan Classification System, as a percentage of total loans by loan type as of:

	March 31, 2023	December 31, 2022*
Real estate mortgage:		
Acceptable	98.25%	98.28%
OAEM	0.96	0.86
Substandard/doubtful/loss	0.79	0.86
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	98.29%	97.43%
OAEM	0.71	0.59
Substandard/doubtful/loss	1.00	1.98
	100.00%	100.00%
Agribusiness:		
Acceptable	97.93%	97.13%
OAEM	0.88	1.68
Substandard/doubtful/loss	1.19	1.19
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.71%	98.80%
OAEM	0.79	0.68
Substandard/doubtful/loss	0.50	0.52
	100.00%	100.00%
Other:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtfu-l/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	98.27%	98.16%
OAEM	0.92	0.83
Substandard/doubtful/loss	0.81	1.01
	100.00%	100.00%

Prior to adoption of CECL on January 1, 2023, loans were presented with accrued interest receivable.

Accrued interest receivable on loans of $17,483 and $17,881 at March 31, 2023 and December 31, 2022, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

The following table provides an aging analysis of past due loans as of:

	March 31, 2023					
	30 Through 89 Days Past Due	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**90 Days or More Past Due and Accruing**
Real estate mortgage	$ 8,066	$ 5,838	$ 13,904	$ 1,629,606	$ 1,643,510	$ –
Production and intermediate-term	1,556	1,310	2,866	286,813	289,679	–
Agribusiness	76	418	494	41,953	42,447	–
Rural residential real estate	1,011	140	1,151	101,322	102,473	–
Other	–	–	–	151	151	–
Total	$ 10,709	$ 7,706	18,415	$ 2,059,845	$ 2,078,260	$ –

Prior to the adoption of CECL, the aging analysis of past due loans reported included accrued interest as follows:

	December 31, 2022					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
Real estate mortgage	$ 9,475	$ 5,982	$ 15,457	$ 1,633,946	$ 1,649,403	$ –
Production and intermediate-term	955	1,747	2,702	299,343	302,045	–
Agribusiness	229	333	562	42,679	43,241	–
Rural residential real estate	1,700	49	1,749	103,446	105,195	–
Other	–	–	–	155	155	–
Total	$ 12,359	$ 8,111	$ 20,470	$ 2,079,569	$ 2,100,039	$ –

The following tables reflect nonperforming assets and related credit quality statistics as of:

	March 31, 2023
Nonaccrual loans:	
Real estate mortgage	$ 7,807
Production and intermediate-term	2,368
Agribusiness	484
Rural residential real estate	156
Total	$ 10,815
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 10,815
Other property owned	–
Total nonperforming assets	$ 10,815
Nonaccrual loans as a percentage of total loans	0.52%
Nonperforming assets as a percentage of total loans and other property owned	0.52%
Nonperforming assets as a percentage of capital	2.43%

	December 31, 2022*
Nonaccrual loans:	
Real estate mortgage	$ 8,622
Production and intermediate-term	5,087
Agribusiness	491
Rural residential real estate	123
Total	$ 14,323
Accruing restructured loans:	
Real estate mortgage	$ 5,401
Production and intermediate-term	1,291
Agribusiness	91
Rural residential real estate	17
Total	$ 6,800
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 21,123
Other property owned	–
Total nonperforming assets	$ 21,123
Nonaccrual loans as a percentage of total loans	0.69%
Nonperforming assets as a percentage of total loans and other property owned	1.01%
Nonperforming assets as a percentage of capital	4.61%

**Prior to adoption of CECL, nonperforming assets included accruing restructured loans and loans were presented including accrued interest receivable.*

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

	March 31, 2023			Three Months Ended March 31, 2023
Nonaccrual loans:	**Amortized Cost with Allowance**	**Amortized Cost without Allowance**	**Total**	**Interest Income Recognized on Nonaccrual Loans**
Real estate mortgage	$ –	$ 7,807	$ 7,807	$ 113
Production and intermediate-term	559	1,809	2,368	34
Agribusiness	135	349	484	7
Rural residential real estate	–	156	156	2
Total	$ 694	$ 10,121	$ 10,815	$ 156

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Residential Real Estate	Other	Total
Allowance for Loan Losses:						
Balance at December 31, 2022	$ 10,254	$ 3,027	$ 344	$ 654	$ 1	$ 14,280
Cumulative effect of a change in accounting principle	(2,544)	427	105	(144)	(1)	(2,157)
Balance at January 1, 2023	$ 7,710	$ 3,454	$ 449	$ 510	$ –	$ 12,123
Charge-offs	(12)	(2,612)	–	(7)	–	(2,631)
Recoveries	14	48	3	8	–	73
Provision for loan losses	1,954	982	(125)	90	1	2,902
Balance at March 31, 2023	$ 9,666	$ 1,872	$ 327	$ 601	$ 1	$ 12,467
Allowance for Unfunded Commitments:						
Balance at December 31, 2022	$ 2	$ 209	$ 27	$ 2	$ –	$ 240
Cumulative effect of a change in accounting principle	(1)	(49)	23	(1)	–	(28)
Balance at January 1, 2023	$ 1	$ 160	$ 50	$ 1	$ –	$ 212
Provision for unfunded commitments	158	(132)	(46)	9	–	(11)
Balance at March 31, 2023	$ 159	$ 28	$ 4	$ 10	$ –	$ 201
Total allowance for credit losses	$ 9,825	$ 1,900	$ 331	$ 611	$ 1	$ 12,668
Allowance for Loan Losses*:						
Balance at December 31, 2021	$ 13,525	$ 2,923	$ 399	$ 864	$ 1	$ 17,712
Charge-offs	(25)	(48)	–	(3)	–	(76)
Recoveries	61	331	2	4	–	398
Provision for loan losses	(260)	(722)	(29)	(40)	–	(1,051)
Balance at March 31, 2022	$ 13,301	$ 2,484	$ 372	$ 825	$ 1	$ 16,983

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

Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one, or a combination of, principal forgiveness, interest rate reduction, or a term or payment extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions. Modified loans to borrowers experiencing financial difficulty and activity on these loans were not material during the three months ended March 31, 2023. There were no material commitments to lend to borrowers experiencing financial difficulty whose loans have been modified at March 31, 2023.

Loans held for sale were $724 and $815 at March 31, 2023 and December 31, 2022, respectively. Such loans are included in other assets and are carried at the lower of cost or fair value.

Troubled Debt Restructurings

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

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

	Three Months Ended March 31, 2022				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 512	$ –	$ –	$ 512	
Production and intermediate-term	–	11	–	11	
Rural residential real estate	17	–	–	17	
Total	$ 529	$ 11	$ –	$ 540	
Post-modification:					
Real estate mortgage	$ 512	$ –	$ –	$ 512	$ –
Production and intermediate-term	–	11	–	11	–
Rural residential real estate	17	–	–	17	–
Total	$ 529	$ 11	$ –	$ 540	$ –

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the three months ended March 31, 2022. Payment default is defined as a payment that was thirty days or more past due.

Defaulted troubled debt restructurings	**Three Months Ended March 31, 2022***
Real estate mortgage	$ 112
Production and intermediate term	171
Total	$ 283

**Prior to adoption of CECL on January 1, 2023, loans were presented with accrued interest receivable.*

The following table provides information at period end on outstanding loans restructured in troubled debt restructurings. These loans were included as impaired loans:

	December 31, 2022*	
	Total TDRs	**Nonaccrual TDRs**
Real estate mortgage	$ 8,788	$ 3,387
Production and intermediate-term	1,818	527
Agribusiness	94	3
Rural residential real estate	17	–
Total loans	$ 10,717	$ 3,917
Additional commitments to lend	$ –	

**Prior to adoption of CECL on January 1, 2023, loans were presented with accrued interest receivable.*

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At March 31, 2023 the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	March 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,493	$ –	$ (140)	$ 3,353	6.79%

	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,548	$ –	$ (196)	$ 3,352	6.64%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	March 31, 2023		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	3,493	3,353	6.79
Total	$ 3,493	$ 3,353	6.79%

All of these investments have contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. Following the adoption of CECL on January 1, 2023, this table is no longer required for held-to-maturity securities. Therefore, there is no table presented for the current period.

	December 31, 2022			
	Less Than 12 Months		12 Months Or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 3,352	$ (196)	$ –	$ –

The Association evaluates investment securities with unrealized losses for impairment on a quarterly basis. As part of this assessment, it was evaluated and concluded that the Association does not intend to sell the security, or it is more likely than not that the Association would be required to sell the security prior to recovery of the amortized cost basis. The Association also evaluates whether credit impairment exists by comparing the present value of expected cash flows to the securities amortized cost basis. Credit impairment, if any, is recorded as an ACL for debt securities. At March 31, 2023, the Association does not consider any unrealized losses to be credit-related and an allowance for credit losses is not necessary.

Equity Investments in Other Farm Credit System Institutions

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 6.58 percent of the issued stock and allocated retained earnings of the Bank as of March 31, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled $42.6 billion and shareholders' equity totaled $1.6 billion. The Bank's earnings were $70.3 million for the first three months of 2023. In addition, the Association held investments of $4,409 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component *(a)*	
	Three Months Ended March 31,	
	2023	2022
Employee Benefit Plans:		
Balance at beginning of period	$ (342)	$ (1,934)
Other comprehensive income before reclassifications	653	–
Amounts reclassified from AOCI	76	130
Net current period other comprehensive income	729	130
Balance at end of period	$ 387	$ (1,804)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*		
	Three Months Ended March 31,		
	2023	2022	Income Statement Line Item
Defined Benefit Pension Plans:			
Periodic pension costs	$ (76)	$ (130)	See Note 7.
Net amounts reclassified	$ (76)	$ (130)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. The following tables summarize assets measured at fair value at period end.

	March 31, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 1,910	$ –	$ –	$ 1,910
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ 462	$ 462
Other property owned	$ –	$ –	$ –	$ –

	December 31, 2022			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 1,897	$ –	$ –	$ 1,897
Nonrecurring assets				
Impaired loans*	$ –	$ –	$ 2,178	$ 2,178
Other property owned	$ –	$ –	$ –	$ –

**Prior to the adoption of CECL on January 1, 2023, the fair value of impaired loans included accruing restructured loans and loans past due 90 days and accruing.*

Valuation Techniques

Assets held in trust funds

Assets held in trust funds, related to deferred compensation plans, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Nonaccrual loans

Fair values of nonaccrual loans are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

Other property owned

For other property owned, the fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. If the process uses observable market-based information, the assets are classified as Level 2. If the process requires significant input based upon management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, the assets are classified as Level 3.

Note 7 — Employee Benefit Plans

The following is a table of retirement and other postretirement benefit expenses for the Association:

	Three Months Ended March 31,	
	2023	2022
Pension	$ 1,968	$ 707
401(k)	451	432
Other postretirement benefits	217	210
Total	$ 2,636	$ 1,349

Expenses in the above table are computed using allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2023.

Further details regarding employee benefit plans are contained in the 2022 Annual Report to Shareholders.

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for monetary damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Merger Activity

Following approval by AgFirst, the FCA, and shareholders, effective April 1, 2023, the Association merged with Carolina Farm Credit, ACA. The merger was accounted for under the acquisition method of accounting guidance in accordance with the FASB Accounting Standards Codification 805 Business Combinations (ASC 805).

Note 10 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 9, 2023, which was the date the financial statements were issued.