AgSouth Farm Credit, ACA

THIRD QUARTER 2023

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 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.
Chief Executive Officer

Bo Fennell
Chief Financial Officer

H. Frank Ables, Jr.
Chairman of the Board

November 8, 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 September 30, 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 September 30, 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 September 30, 2023.

Vance C Dalton Jr

Vance C. Dalton, Jr.
Chief Executive Officer

Bo Fennell
Chief Financial Officer

November 8, 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 September 30, 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.

MERGER ACTIVITY

AgSouth Farm Credit, ACA, merged with Carolina Farm Credit, ACA, (the merger), effective April 1, 2023. AgSouth Farm Credit is now headquartered in Statesville, North Caroina with an Administrative office in Statesboro, Georgia. The merger has brought together two respected Associations to better serve agriculture and our rural communities through optimized resources and greater access to specialized expertise.

The effects of the merger are included in our financial position, results of operations and related metrics beginning April 1, 2023. Prior year results have not been restated to reflect the impact of the merger. Results of operations and equity reflect the results of AgSouth Farm Credit, ACA prior to April 1, 2023, and the merged Association after April 1, 2023. Upon the closing of the merger, loans increased $1,732,955, liabilities increased $1,469,460, and equity increased $333,717. The amounts include adjustments to fair value, as required by accounting standards for business combinations. See further information regarding the merger within *Note 9 — Merger Activity*.

The merger was accounted for under the acquisition method of accounting in accordance with the FASB Accounting Standards Codification (ASC 805). As the accounting acquirer, AgSouth Farm Credit, ACA recognized the identifiable assets acquired and liabilities assumed in the merger as of the effective date at their respective fair values. The fair value of the net identifiable assets was substantially equal to the fair value of the equity interest exchanged in the merger. As a result, no goodwill was recorded.

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. 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, sawmill/timber, and cotton. The purpose of this section is to give an overview of these 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 September 27, 2023, domestic broiler growers placed 184 million chicks for meat production, down 2.0 percent from a year ago. Cumulative placements for 2023 are also down slightly from a year ago. In Georgia, 28.25 million broiler chicks were placed which represents a 7.0 percent increase from the same time last year. North Carolina had 18.43 million broiler chicks placed which represents a 2.4 percent decrease from a year ago. South Carolina had 4.64 million broiler chicks placed which represents a 16.0 percent decrease from a year ago.

Sawmill/Timber: According to the TimberMart-South *Quarterly Market Bulletin ~ 3rd Quarter 2023,* timber prices generally decreased in the third quarter, as drier weather conditions alleviated supply constraints. South-wide average stumpage prices decreased for four of the five major timber products in the third quarter. Hardwood sawtimber prices experienced a slight increase this quarter; however, they remain down 3.6 percent year over year. Other products with year over year decreases include pine pulpwood (down 21.0 percent), pine sawtimber (down 1.0 percent), and hardwood pulpwood (down 26.0 percent). According to the US Census, housing starts (year to date through August) were down 13 percent from the same period in 2022. Remodeling and improvements expenditures were down 3.0 percent from the same period in 2022.

Cotton: Planting is complete for cotton in Georgia, North Carolina, and South Carolina. According to the NASS *Prospective Planting Report* dated September 12, 2023, cotton plantings are estimated at 1.1 million acres in Georgia, 380,000 acres in North Carolina, and 210,000 acres in South Carolina. That represents a 14.0 percent decrease in Georgia, 19.1 percent decrease in North Carolina, and 22.2 percent decrease in South Carolina. According to USDA *Crop Progress and Condition Report* dated September 24, 2023, the majority of the crop in all three states is considered fair to good.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of September 30, 2023 was $4,034,349 an increase of $1,952,191 or 93.76 percent compared to $2,082,158 at December 31, 2022. Net loans outstanding at September 30, 2023 were $4,018,809 as compared to $2,067,878 at December 31, 2022. Net loans accounted for 95.98 percent of total assets at September 30, 2023, as compared to 95.82 percent of total assets at December 31, 2022.

The significant increase in gross loan volume during the reporting period is largely attributed to the merger with Carolina Farm Credit. The increase is also due to the funding of operating lines of credit and term loans during the busiest time of the growing season. Advances on most operating lines are now funded and additional growth in the portfolio is being realized. 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 September 30, 2023 Investments in debt securities totaled $648, a decrease of $2,900 from December 31, 2022. The 81.74 percent decrease is due to the payoff of one of the Association's investments. 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 $13,966 at September 30, 2023. The balance of nonaccrual loans is decreased by loans returning to accrual status, liquidations, or transfer of assets to other property owned offset by transfers to nonaccrual status. Association staff is working diligently to work out all nonaccrual debt situations.

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 September 30, 2023 was $15,540 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 $2,144 which is an increase of $1,904 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 the Director of Special Assets Management, met in September 2023 to review the allowance account. The ALCO determines the composition of the allowance for credit losses. 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.

At the end of the third quarter of 2023, the Association had originated $180,401 in loans for the secondary market. Originations for the same period 2022 were $218,772. The 17.54 percent decrease is due to increased mortgage rates which have slowed down home purchases and construction. As of September 30, 2023 the Association held $2,185 in qualifying Loans held for sale. At December 31, 2022 loans held for sale totaled $815.

At September 30, 2023 Other investments totaled $282. At December 31, 2022 the Association did not have Other investments. This increase is due to the acquisition of Carolina Farm Credit and investing activity by the Association's Capital Markets Group.

Accrued interest receivable increased $24,628 or 137.57 percent from $17,902 as of December 31, 2022 to $42,530 as of September 30, 2023. The increase between September 30, 2023 and December 31, 2022 is related to a significant increase in loan volume primarily due to the merger during 2023.

Equity investments in other Farm Credit institutions increased from $29,476 at December 31, 2022 to $53,918 at September 30, 2023. The increase of $24,442 or 82.92 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 $19,125 from $19,757 at December 31, 2022 to $38,882 at September 30, 2023. The primary reason for the increase of 96.80 percent is due to the merger which included the acquisition of office buildings, land, furniture and equipment, vehicles, etc.

Accounts receivable increased $6,538 from $15,715 at December 31, 2022 to $22,253 at September 30, 2023. The increase is the result of the patronage distribution receivable at December 31, 2022 from AgFirst and other Farm Credit institutions, which totaled $15,130 in regular distribution. As of September 30, 2023 this line item included three quarters of patronage accrual from AgFirst and other Farm Credit institutions totaling $21,739.

Other assets increased from $2,218 at December 31, 2022 to $7,624 at September 30, 2023. The majority of other assets is made up of the Nonqualified Deferred Benefit Pension Plan which totaled $3,656 as of September 30, 2023.

On the liability side of the balance sheet, Notes payable to AgFirst Farm Credit Bank increased from $1,643,799 at December 31, 2022 to $3,300,518 at September 30, 2023. The $1,656,719 or 100.79 percent increase is tied to the increase in loans outstanding.

Accrued interest payable increased $6,520, or 141.96 percent, from $4,593 at December 31, 2022 to $11,113 at September 30, 2023. The increase is due to the increase in the notes payable balance outstanding.

Patronage refunds payable decreased $32,560 from $33,187 at December 31, 2022 to $627 at September 30, 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. Distributions to customers occurred during the second quarter of 2023. No patronage distribution had been declared for 2023 as of September 30, 2023.

Accounts payable increased $3,369 from $3,941 at December 31, 2022 to $7,310 at September 30, 2023. The 85.49 percent increase is due to member reimbursements and insurance premiums paid to the Farm Credit System Corporation.

Other liabilities increased $25,919 from $14,210 at December 31, 2022 to $40,129 at September 30, 2023. The 182.40 percent increase is due to the increase in retirement liabilities totaling $10,881.

Capital stock and participation certificates increased from $11,243 at December 31, 2022 to $22,372 at September 30, 2023. The increase of $11,129 or 98.99 percent is due to new borrowers purchasing stock during the reporting period in excess of liquidations of stock when loans pay out as well as the addition of Carolina Farm Credit members.

Additonal paid-in-capital totaled $96,458 at September 30, 2023, as a result of the merger with Carolina Farm Credit on April 1, 2023.

Allocated surplus increased from $101,191 at December 31, 2022 to $305,208 at September 30, 2023. This is an increase of $204,017 or 201.62 percent. The considerable increase is due to how Carolina Farm Credit classified their retained earnings.

Unallocated surplus increased $56,773 or 16.40 percent from the December 31, 2022 balance of $346,152. The balance of $402,925 at September 30, 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 $938 or 274.27 percent from the December 31, 2022 loss balance of $342. At September 30, 2023 there was a balance of $596.

RESULTS OF OPERATIONS

For the three months ended September 30, 2023

Net income for the three months ended September 30, 2023 totaled $27,282 as compared to $13,386 for the same period in 2022. This is an increase of $13,896 or 103.81 percent. Comprehensive income for the three months ended September 30, 2023 was $27,287 compared to $13,516 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 September 30, 2023 interest income on loans increased $46,774 from $29,792 at September 30, 2022 to $76,566 at September 30, 2023. This increase of 157.00 percent is primarily due to an increase in gross loans from the merger in conjunction with the increase in interest rates between the two reporting periods.

For the three months ended September 30, 2023 interest income on investments totaled $69 compared to $63 for the three months ended September 30, 2022. Investment income increased $6 or 9.52 percent due to the higher average balance throughout the period in 2023 compared to 2022.

Interest expense for the three months ended September 30, 2023 increased $26,524 from $12,295 at September 30, 2022 to $38,819 at September 30, 2023. The variance of 215.73 percent is due to an increase in gross loans in relation to the merger and 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 $20,256 for the three months ended September 30, 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 increased $18,602 during the quarter ending September 30, 2023 compared to September 30, 2022. A provision of allowance for loan losses of $686 was made in the quarter ending September 30, 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 increased $6,082 over the same period last year. The commentary that follows will detail the aggregate difference.

Loan fees increased $1,262 or 130.24 percent, due to an increase in fees from originations and appraisals tied to the increase in loan volume.

Fees for financially related services increased $613 from $805 at September 30, 2022 to $1,418 at September 30, 2023. The increase of 76.15 percent is due to the increase in leasing services income earned during the reporting period.

Patronage refunds from other Farm Credit institutions increased $3,619 from $3,957 at September 30, 2022 to $7,576 at September 30, 2023. The increase of 91.46 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 increased $346 from $649 at September 30, 2022 compared to $995 at September 30, 2023. The increase is due to the increase in volume of Secondary Mortgage Markets sold.

Gains on the sale of premises and equipment, net for the period ending September 30, 2023 totaled $359 compared to $160 for the period ending September 30, 2022. The Association sold more fleet vehicles in 2023 compared to 2022.

Losses on other transactions totaled $3 at September 30, 2023 compared to Losses on other transactions of $78 at September 30, 2022. This difference is due to settlement payments and reclassification of unfunded provision in 2022.

Other noninterest income was $125 during the three months ended September 30, 2023 compared to $157 for the three months ending September 30, 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 September 30, 2023 totaled $22,555 and increased $10,794 or 91.78 percent when compared to $11,761 for the same period of 2022. Salaries and employee benefits expense is the largest portion of noninterest expense and totaled $15,561 for the three months ended September 30, 2023. Salaries and employee benefits increased $7,764 between the two reporting periods. There is a 99.58 percent variance between the two reporting periods due to the increase in staff from the merger between the Association and Carolina Farm Credit.

Occupancy and equipment expense at September 30, 2023 was $1,083 compared to $563 for the same period in 2022. This is an increase of $520 or 92.36 percent. The increase is tied to increase in Premises and equipment on the balance sheet and the associated costs such as cost of space.

The Insurance Fund premiums at September 30, 2023 were $1,426 and at September 30, 2022 were $761. The $665 or 87.39 percent increase is due to the increase in loan volume and the higher premium assessment rate in 2023.

Purchased Services at September 30, 2023 were $765 and at September 30, 2022 were $798. The $33 or 4.14 percent decrease is due to non-recurring merger related expenses that occurred in 2022 in preparation for the merger.

Data processing expense at September 30, 2023 was $289 compared to $129 for the same period in 2022. This is an increase of $160 or 124.03 percent tied to telecommunication services.

Other operating expenses increased $1,715 from $1,716 at September 30, 2022 compared to $3,431 at September 30, 2023. The increase of 99.94 percent is attributed to an increase in retirement expense, directors expense, insurance, travel, Association vehicles, and marketing activities.

In the three months ending September 30, 2023 the Association did not experience a Gain or Loss on other property owned compared to $3 Gains on the sale of other property owned for the same period in 2022. The gains are the result of sales exceeding any write-downs during the third quarter.

For the nine months ended September 30, 2023

Net income for the nine months ended September 30, 2023, totaled $54,588 as compared to $37,577 for the same period in 2022. This is an increase of $17,011 or 45.27 percent. Comprehensive income for the nine months ended September 30, 2023 was $55,326 compared to $37,967 for the nine months ended September 30, 2022. Employee benefit plans adjustments are responsible for the difference between comprehensive income and net income. The following narrative will explain the variance.

At September 30, 2023 interest income on loans increased $95,995 to $180,222 compared to $84,227 for the same period in 2022. The increase is tied to growth in loan volume from the merger and the increase in the overall weighted average interest rate earned.

For the nine months ending September 30, 2022 interest income on investments totaled $198 compared to $190 for the same period ended September 30, 2023. Investment income increased $8 or 4.21 percent due to the higher outstanding balance of investments between the two reporting periods.

Interest expense increased $54,965 or 167.22 percent from $32,870 at September 30, 2022 to $87,835 for the nine months ended September 30, 2023. The net increase is attributable to a higher direct note balance between the reporting periods.

Net interest income before the provision for loan loss increased $41,038 or 79.61 percent for the nine months ended September 30, 2023 as compared to the same period in 2022 primarily due to the increase in loan volume. Net interest income after the provision for loan losses increased $30,861 for the period ending September 30, 2023 due to an increase in loan volume and the provision for the allowance for credit losses.

The reversal for credit losses amount in the 2022 reporting period totaled $2,302 and there were provision entries totaling $7,875 in the 2023 reporting period. In September 2023, the Association's ALCO made the decision to increase the allowance requiring an increase to the general reserve and the allowance for unfunded commitments which resides within Other Liabilities. These decisions were made after analyzing the risk in the current portfolio. The ALCO analysis included reviewing historical trends, loan size, loan performance, and credit quality reports.

Noninterest income for the nine months ended September 30, 2023 increased $10,494 compared to the same period of 2022. Loan fees increased $1,492 or 41.62 percent. The increase is due to an increase in origination fee income.

Fees for financially related services increased $526 from $1,722 at September 30, 2022 compared to $2,248 at September 30, 2023. The 30.55 percent increase in fees for financially related services is due to an increase in crop insurance, life insurance, and leasing sales.

The patronage refunds from other Farm Credit institutions increased $6,747 from $12,182 at September 30, 2022 to $18,929 at September 30, 2023. The increase of 55.38 percent is a result of the merger.

Gains on the sale of rural home loans decreased $85 from $2,487 at September 30, 2022 to $2,402 at September 30, 2023. Gains decreased due to the higher interest rate environment compared to this time in 2022.

Gains on the sale of premises and equipment increased $205 from $310 for the period ending September 30, 2022 to $515 at September 30, 2023. The increase is the result of the increased resell value of Association vehicles sold during the period.

Gains on other transactions totaled $6 for the nine months ended September 30, 2023 compared to losses of $1,575 for the same period in 2022. The losses recorded in the 2022 reporting period are primarily related to the payout to settle disputed claims.

Other noninterest income increased $28 from $437 at September 30, 2022 compared to $465 at September 30, 2023. The variance of 6.41 percent is due to volume premiums paid by AgFirst for secondary market activity, lease income, and settlement payments received.

Noninterest expense for the nine months ended September 30, 2023 increased $24,342 compared to the same period of 2022 from $35,428 to $59,770. Salaries and employee benefits expense increased $15,213 between the two reporting periods. The 61.07 percent increase in salaries and employee benefits is due to an increase in employee count resulting from the merger. The Association accrues for the 2023 incentive payment based upon plan results which are included in salary and benefit expense. The Association evaluated 2023 performance measures for incentive purposes and determined that some employees could earn incentive in 2023. Based upon this information, the Association will continue to accrue for incentive. The expense associated with the incentive accrual balance as of September 30, 2023 is $6,640. Association results will be re-evaluated prior to the end of the fourth quarter 2023 to determine the most accurate accrual for the 2023 incentive plan.

Occupancy and equipment expense at September 30, 2023 was $3,050 compared to $1,542 for the same period in 2022. The increase is tied to the acquisition of Carolina Farm Credit's fixed assets from the merger.

The Insurance Fund premiums increased from $2,214 at September 30, 2022 to $3,473 at September 30, 2023. The increase of $1,259 or 56.87 percent is due to the higher loan volume in 2023 compared to 2022.

Purchased Services totaled $2,971 for the nine months ending September 30, 2023. This is an increase of $1,302 or 78.01 percent compared to the nine months ending September 30, 2022 total of $1,669. The increase is due to the increased closing costs in relation to the growth in loan volume, as well as merger expenses.

Data Processing increased $380 or 102.98 percent from $369 for nine months ending September 30, 2022 compared to $749 for nine months ending September 30, 2023. The increase is tied to the increase of telecommunication services as a result of the merger with Carolina Farm Credit.

Other operating expenses increased $4,757 from $4,748 at September 30, 2022 compared to $9,505 at September 30, 2023. The increase is primarily due to director, training, travel and marketing expenses due to the increase in Association size from the merger.

Gains on other property owned, net totaled $103 for the nine months ending September 30, 2023. When compared to the same period in 2022, gains on other property owned totaled $26. These amounts are due to the gains recognized on the sale of other property owned exceeding any write-downs.

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 September 30, 2023 was $3,300,518 as compared to $1,643,799 at December 31, 2022. The $1,656,719 increase or 100.79 percent, is directly related to the merger and the increase in loan volume.

CAPITAL RESOURCES

Total members' equity at December 31, 2022 totaled $458,244. At September 30, 2023 total members' equity had increased by $369,315 to $827,559. A large portion of the increase in total members' equity is due to booking of Additional paid-in-capital from the acquisition of Carolina Farm Credit totaling $96,458. The majority of the increase in members' equity is from the increase in Allocated retained earnings between the two reporting periods primarily contributed from the merger with Carolina Farm Credit. At December 31, 2022 Allocated retained earnings totaled $101,191 compared to $305,208 at September 30, 2023. At December 31, 2022 Unallocated retained earnings totaled $346,152 and increased to $402,925. 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 $22,372 on September 30, 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, as well as, the acquisiton of Carolina Farm Credit.

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 September 30, 2023
Risk-adjusted ratios:		
CET1 Capital	7.00%	16.78%
Tier 1 Capital	8.50%	16.78%
Total Capital	10.50%	19.21%
Permanent Capital Ratio	7.00%	18.84%
Non-risk-adjusted:		
Tier 1 Leverage Ratio	5.0%	16.54%
UREE Leverage Ratio	1.5%	15.99%

REGULATORY MATTERS

On October 12, 2023, the Farm Credit Administration approved a final rule governing the Farm Credit System's service to young, beginning, and small (YBS) farmers and ranchers. The rule requires banks that fund the direct-lender associations to annually review and approve the association YBS programs. The rule also requires direct-lender associations to enhance the strategic plan of its YBS program. The strategic plan must contain specific elements that will be evaluated as part of a rating system to measure year-over-year internal progress, which would allow the Farm Credit Administration to compare the success of the direct-lender' association's YBS program. The final rule becomes effective on February 1, 2024.

On October 5, 2023, the Farm Credit Administration approved a final rule on cyber risk management that requires each System institution to develop and implement a comprehensive, written cyber risk management program. Each institution's cyber risk plan must require the institution to take the actions to assess internal and external risk factors, identify potential system and software vulnerabilities, establish a risk management program for the risks identified, develop a cyber risk training program, set policies for managing third-party relationships, maintain robust internal controls and establish board reporting requirements. The final rule will become effective on January 1, 2025.

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 for distributions. The 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

US dollar LIBOR settings (including with respect to overnight, one, three, six, and twelve month tenors of US dollar LIBOR) were discontinued or declared non-representative immediately after June 30, 2023.

The Bank and Associations implemented LIBOR transition plans in accordance with FCA's guidance to address the risks associated with the discontinuation of LIBOR. See the Bank's 2022 Annual Report for further discussion on the LIBOR transition plans.

Prior to the discontinuance of LIBOR, the Bank and Associations exposure to LIBOR arose from loans made to customers, investment securities purchased, and Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf. To the extent necessary, substantially all financial instruments that referenced LIBOR were amended to incorporate adequate fallbacks, including, where appropriate, the Secured Overnight Finance Rate (SOFR)-based fallbacks recommended by the Alternative Reference Rates Committee (ARRC).

To the extent that any Bank contracts were not amended to include adequate fallback provisions to replace LIBOR, such contracts were amended by operation of law under the federal Adjustable Interest Rate (LIBOR) Act and rules thereunder to include a statutorily designated fallback to LIBOR. Under the Federal Reserve Board's rule implementing certain provisions of the LIBOR Act (Regulation ZZ), on the LIBOR replacement date (the first London banking day after June 30, 2023), the Federal Reserve Board-selected benchmark replacement, based on the SOFR and including any tenor spread adjustment as provided by Regulation ZZ, automatically replaced references to overnight, one, three, six, and twelve month LIBOR in all remaining contracts that did not mature before the LIBOR replacement date and did not contain adequate fallback language.

The Bank and Associations' variable-rate financial instruments outstanding with LIBOR exposure as of September 30, 2023 equaled 0.2% of total Bank assets, and total 0.1% of total Combined Association assets, respectively.

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.

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)		September 30, 2023		December 31, 2022
		(unaudited)		(audited)
Assets				
Cash	**$**	**125**	$	665
Investments in debt securities:				
Held to maturity (fair value of $550 and $3,352, respectively)		**648**		3,548
Loans		**4,034,349**		2,082,158
Allowance for loan losses		**(15,540)**		(14,280)
Net loans		**4,018,809**		2,067,878
Loans held for sale		**2,185**		815
Other investments		**282**		—
Accrued interest receivable		**42,530**		17,902
Equity investments in other Farm Credit institutions		**53,918**		29,476
Premises and equipment, net		**38,882**		19,757
Accounts receivable		**22,253**		15,715
Other assets		**7,624**		2,218
Total assets	**$**	**4,187,256**	$	2,157,974
Liabilities				
Notes payable to AgFirst Farm Credit Bank	**$**	**3,300,518**	$	1,643,799
Accrued interest payable		**11,113**		4,593
Patronage refunds payable		**627**		33,187
Accounts payable		**7,310**		3,941
Other liabilities		**40,129**		14,210
Total liabilities		**3,359,697**		1,699,730
Commitments and contingencies (Note 8)				
Members' Equity				
Capital stock and participation certificates		**22,372**		11,243
Additional paid-in-capital		**96,458**		—
Retained earnings				
Allocated		**305,208**		101,191
Unallocated		**402,925**		346,152
Accumulated other comprehensive income (loss)		**596**		(342)
Total members' equity		**827,559**		458,244
Total liabilities and members' equity	**$**	**4,187,256**	$	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 September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Interest Income				
Loans	**$ 76,566**	$ 29,792	**$ 180,222**	$ 84,227
Investments	**69**	63	**198**	190
Total interest income	**76,635**	29,855	**180,420**	84,417
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**38,819**	12,295	**87,835**	32,870
Total interest expense	**38,819**	12,295	**87,835**	32,870
Net interest income	**37,816**	17,560	**92,585**	51,547
Provision for (reversal of) allowance for credit losses	**686**	(968)	**7,875**	(2,302)
Net interest income after provision for (reversal of) allowance for credit losses	**37,130**	18,528	**84,710**	53,849
Noninterest Income				
Loan fees	**2,231**	969	**5,077**	3,585
Fees for financially related services	**1,418**	805	**2,248**	1,722
Patronage refunds from other Farm Credit institutions	**7,576**	3,957	**18,929**	12,182
Gains (losses) on sales of rural home loans, net	**995**	649	**2,402**	2,487
Gains (losses) on sales of premises and equipment, net	**359**	160	**515**	310
Gains (losses) on other transactions	**(3)**	(78)	**6**	(1,575)
Other noninterest income	**125**	157	**465**	437
Total noninterest income	**12,701**	6,619	**29,642**	19,148
Noninterest Expense				
Salaries and employee benefits	**15,561**	7,797	**40,125**	24,912
Occupancy and equipment	**1,083**	563	**3,050**	1,542
Insurance Fund premiums	**1,426**	761	**3,473**	2,214
Purchased services	**765**	798	**2,971**	1,669
Data processing	**289**	129	**749**	369
Other operating expenses	**3,431**	1,716	**9,505**	4,748
(Gains) losses on other property owned, net	**—**	(3)	**(103)**	(26)
Total noninterest expense	**22,555**	11,761	**59,770**	35,428
Income before income taxes	**27,276**	13,386	**54,582**	37,569
Provision (benefit) for income taxes	**(6)**	—	**(6)**	(8)
Net income	**$ 27,282**	$ 13,386	**$ 54,588**	$ 37,577
Other comprehensive income net of tax				
Employee benefit plans adjustments	**5**	130	**738**	390
Comprehensive income	**$ 27,287**	$ 13,516	**$ 55,326**	$ 37,967

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	Additional Paid-in-Capital	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				37,577	390	37,967
Capital stock/participation certificates issued/(retired), net	114					114
Retained earnings retired		—	(19,890)			(19,890)
Balance at September 30, 2022	$ 11,221	$ —	$ 101,191	$ 354,827	$ (1,544)	$ 465,695
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				**54,588**	**738**	**55,326**
Capital stock/participation certificates issued/(retired), net	**615**					**615**
Retained earnings retired			**(22,541)**			**(22,541)**
Equity re-characterized due to merger	**10,514**	**96,458**	**226,545**		**200**	**333,717**
Patronage distribution adjustment			**13**			**13**
Balance at September 30, 2023	**$ 22,372**	**$ 96,458**	**$ 305,208**	**$ 402,925**	**$ 596**	**$ 827,559**

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). Descriptions 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.

Effective April 1, 2023, the Association merged with Carolina Farm Credit, ACA. See Note 9, *Merger Activity*, for further information.

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 credit losses on January 1, 2023. This guidance replaced the current incurred loss impairment methodology with a single allowance framework for financial assets that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework 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 consider macroeconomic conditions. 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 on a prospective basis. 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 loan losses	$ 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 recorded at amortized cost basis, which is the principal amount outstanding adjusted for charge-offs, deferred loan fees or costs, and valuation adjustments relating to hedging activities, if any. 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 adopted the practical expedient to classify 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, the Association adopted the 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 loan losses
- the allowance for unfunded commitments, which is presented on the Consolidated Balance Sheets in Other Liabilities, and
- 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 allowance for loan losses 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 allowance for loan losses 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 ACL.

In estimating the component of the allowance for loan losses that relates to 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 allowance for loan losses 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 allowance for loan loss 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 allowance for loan losses 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:

	September 30, 2023	December 31, 2022
Real estate mortgage	$ 2,886,292	$ 1,637,408
Production and intermediate-term	725,984	296,885
Agribusiness:		
Loans to cooperatives	8,542	–
Processing and marketing	127,275	21,079
Farm-related business	39,849	21,789
Rural infrastructure:		
Communication	20,594	–
Power and water/waste disposal	18,275	–
Rural residential real estate	194,738	104,842
Other:		
International	12,173	–
Other (including Mission Related)	627	155
Total loans	$ 4,034,349	$ 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:

	September 30, 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	$ 21,402	$ 150,953	$ 3,740	$ 6,979	$ 2,895	$ –	$ 28,037	$ 157,932
Production and intermediate-term	30,558	180,231	8,607	1,250	3,187	–	42,352	181,481
Agribusiness	96,145	126,993	475	17,620	–	–	96,620	144,613
Rural infrastructure	39,176	–	–	–	–	–	39,176	–
Other	12,541	–	–	–	–	–	12,541	–
Total	$ 199,822	$ 458,177	$ 12,822	$ 25,849	$ 6,082	$ –	$ 218,726	$ 484,026

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

	September 30, 2023	December 31, 2022*
Real estate mortgage:		
Acceptable	98.52%	98.28%
OAEM	0.89	0.86
Substandard/doubtful/loss	0.59	0.86
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	97.43%	97.43%
OAEM	1.10	0.59
Substandard/doubtful/loss	1.47	1.98
	100.00%	100.00%
Agribusiness:		
Acceptable	98.16%	97.13%
OAEM	1.43	1.68
Substandard/doubtful/loss	0.41	1.19
	100.00%	100.00%
Rural infrastructure:		
Acceptable	97.18%	–%
OAEM	2.82	–
Substandard/doubtful/loss	–	–
	100.00%	–%
Rural residential real estate:		
Acceptable	98.51%	98.80%
OAEM	1.01	0.68
Substandard/doubtful/loss	0.48	0.52
	100.00%	100.00%
Other:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	98.30%	98.16%
OAEM	0.97	0.83
Substandard/doubtful/loss	0.73	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 $42,527 and $17,881 at September 30, 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:

	September 30, 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	$ 42,015	$ 6,512	$ 48,527	$ 2,837,765	$ 2,886,292	$ –
Production and intermediate-term	9,445	3,035	12,480	713,504	725,984	–
Agribusiness	764	599	1,363	174,303	175,666	–
Rural infrastructure	–	–	–	38,869	38,869	–
Rural residential real estate	3,600	301	3,901	190,837	194,738	–
Other	–	–	–	12,800	12,800	–
Total	$ 55,824	$ 10,447	$ 66,271	$ 3,968,078	$ 4,034,349	$ –

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:

	September 30, 2023
Nonaccrual loans:	
Real estate mortgage	$ 8,902
Production and intermediate-term	4,057
Agribusiness	621
Rural residential real estate	386
Total	$ 13,966
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 13,966
Other property owned	–
Total nonperforming assets	$ 13,966
Nonaccrual loans as a percentage of total loans	0.35%
Nonperforming assets as a percentage of total loans and other property owned	0.35%
Nonperforming assets as a percentage of capital	1.69%

	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:

	September 30, 2023			Interest Income Recognized on Nonaccrual Loans	
Nonaccrual loans:	**Amortized Cost with Allowance**	**Amortized Cost without Allowance**	**Total**	**Three Months Ended September 30, 2023**	**Nine Months Ended September 30, 2023**
Real estate mortgage	$ –	$ 8,902	$ 8,902	$ 245	$ 409
Production and intermediate-term	1,121	2,936	4,057	112	186
Agribusiness	135	486	621	17	29
Rural residential real estate	80	306	386	11	18
Total	$ 1,336	$ 12,630	$ 13,966	$ 385	$ 642

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 infrastructure**	**Rural Residential Real Estate**	**Other**	**Total**
Allowance for Loan Losses:							
Balance at June 30, 2023	$ 11,828	$ 3,407	$ 675	$ 106	$ 832	$ 50	$ 16,898
Charge-offs	–	(110)	–	–	–	–	(110)
Recoveries	10	9	–	–	–	–	19
Provision for loan losses	(2,032)	1,240	(80)	(71)	(279)	(45)	(1,267)
Balance at September 30, 2023	$ 9,806	$ 4,546	$ 595	$ 35	$ 553	$ 5	$ 15,540
Allowance for unfunded commitments:							
Balance at June 30, 2023	$ 695	$ 175	$ 35	$ 6	$ 49	$ 3	$ 963
Adjustment due to merger	(434)	(204)	(122)	–	(5)	(6)	(771)
Provision for unfunded commitments	1,108	515	339	(4)	(18)	13	1,953
Balance at September 30, 2023	$ 1,369	$ 486	$ 252	$ 2	$ 26	$ 10	$ 2,145
Total allowance for credit losses	$ 11,175	$ 5,032	$ 847	$ 37	$ 579	$ 15	$ 17,685
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	(2,544)	427	105	–	(144)	(1)	(2,157)
Balance at January 1, 2023	$ 7,710	$ 3,454	$ 449	$ –	$ 510	$ –	$ 12,123
Charge-offs	(12)	(2,818)	–	–	(7)	–	(2,837)
Recoveries	74	126	104	–	8	–	312
Provision for loan losses	2,034	3,784	42	35	42	5	5,942
Balance at September 30, 2023	$ 9,806	$ 4,546	$ 595	$ 35	$ 553	$ 5	$ 15,540
Allowance for Unfunded Commitments:							
Balance at December 31, 2022	$ 2	$ 209	$ 27	$ –	$ 2	$ –	$ 240
Cumulative effect of a change in accounting	(1)	(49)	23	–	(1)	–	(28)
Balance at January 1, 2023	$ 1	$ 160	$ 50	$ –	$ 1	$ –	$ 212
Provision for unfunded commitments	1,368	326	202	2	25	10	1,933
Balance at September 30, 2023	$ 1,369	$ 486	$ 252	$ 2	$ 26	$ 10	$ 2,145
Total allowance for credit losses	$ 11,175	$ 5,032	$ 847	$ 37	$ 579	$ 15	$ 17,685
Allowance for Loan Losses*:							
Balance at June 30, 2022	$ 13,011	$ 2,505	$ 383	$ –	$ 821	$ 1	$ 16,721
Charge-offs	–	(62)	–	–	–	–	(62)
Recoveries	32	24	–	–	–	–	56
Provision for loan losses	(875)	(40)	(2)	–	(51)	–	(968)
Balance at September 30, 2022	$ 12,168	$ 2,427	$ 381	$ –	$ 770	$ 1	$ 15,747
Balance at December 31, 2021	$ 13,525	$ 2,923	$ 399	$ –	$ 864	$ 1	$ 17,712
Charge-offs	(25)	(123)	–	–	(15)	–	(163)
Recoveries	102	383	2	–	13	–	500
Provision for loan losses	(1,434)	(756)	(20)	–	(92)	–	(2,302)
Balance at September 30, 2022	$ 12,168	$ 2,427	$ 381	$ –	$ 770	$ 1	$ 15,747

**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 and nine months ended September 30, 2023. There were no material commitments to lend to borrowers experiencing financial difficulty whose loans have been modified at September 30, 2023.

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 tables present additional information regarding troubled debt restructurings that occurred during the period:

	Three Months Ended September 30, 2022*				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ 2	$ 134	$ –	$ 136	
Total	$ 2	$ 134	$ –	$ 136	
Post-modification:					
Production and intermediate-term	$ 2	$ 142	$ –	$ 144	$ –
Total	$ 2	$ 142	$ –	$ 144	$ –

	Nine Months Ended September 30, 2022*				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 512	$ –	$ –	$ 512	
Production and intermediate-term	268	144	–	412	
Agribusiness	101	–	–	101	
Rural residential real estate	17	–	–	17	
Total	$ 898	$ 144	$ –	$ 1,042	
Post-modification:					
Real estate mortgage	$ 512	$ –	$ –	$ 512	$ –
Production and intermediate-term	268	153	–	421	–
Agribusiness	105	–	–	105	–
Rural residential real estate	17	–	–	17	–
Total	$ 902	$ 153	$ –	$ 1,055	$ –

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

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 and nine months ended September 30, 2022. Payment default is defined as a payment that was thirty days or more past due.

Defaulted troubled debt restructurings	**Three Months Ended September 30, 2022***	**Nine Months Ended September 30, 2022***
Production and intermediate term	$ 261	$ 261
Agribusiness	99	99
Total	$ 360	$ 360

**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.

Loans held for sale were $2,185 and $815 at September 30, 2023 and December 31, 2022, respectively. Such loans are carried at the lower of cost or fair value.

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 September 30, 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:

	September 30, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 648	$ –	$ (98)	$ 550	5.77%

	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:

	September 30, 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	648	550	5.77
Total	$ 648	$ 550	5.77%

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. 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 concluded that the Association does not intend to sell the security, or it is not 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 amortized cost basis of the security. Credit impairment, if any, is recorded as an ACL for debt securities. At September 30, 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 12.56 percent of the issued stock and allocated retained earnings of the Bank as of September 30, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled $43.4 billion and shareholders' equity totaled $1.4 billion. The Bank's earnings were $195 million for the first nine months of 2023. In addition, the Association held investments of $5,902 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Employee Benefit Plans:				
Balance at beginning of period	$ 591	$ (1,674)	$ (342)	$ (1,934)
Equity re-characterized due to merger	–	–	200	–
Other comprehensive income before reclassifications	–	–	653	–
Amounts reclassified from AOCI	5	130	85	390
Net current period other comprehensive income	5	130	738	390
Balance at end of period	$ 596	$ (1,544)	$ 596	$ (1,544)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*				
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2023	2022	2023	2022	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (5)	$ (130)	$ (85)	$ (390)	See Note 7.
Net amounts reclassified	$ (5)	$ (130)	$ (85)	$ (390)	

(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.

	September 30, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 5,750	$ –	$ –	$ 5,750
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ 299	$ 299
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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Pension	$ 1,681	$ 742	$ 5,366	$ 2,228
401(k)	709	372	1,879	1,177
Other postretirement benefits	496	224	1,200	697
Total	$ 2,886	$ 1,338	$ 8,445	$ 4,102

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

Effective April 1, 2023, Carolina Farm Credit, ACA (Carolina) merged with and into AgSouth Farm Credit, ACA (AgSouth) to form the merged Association. The effects of the merger are included in the Association's results of operations, statement of condition, average balances, and related metrics beginning April 1, 2023.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of September 30, 2023. The Consolidated Statements of Income and Members' Equity include the merged Association after April 1, 2023 and do not include the results of Carolina prior to April 1, 2023. Information in the Notes to the Consolidated Financial Statements does not include balances and transactional activity for Carolina prior to April 1, 2023.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the common stock shares of Carolina that were converted in the merger and the common stock shares of AgSouth to which they were converted had identical rights and attributes. For this reason, the conversion of Carolina stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each Carolina share was converted into one share of AgSouth's stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the AgSouth stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, AgSouth undertook a process to identify and estimate the acquisition date fair value of Carolina's equity interests instead of the acquisition date fair value of AgSouth's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from Carolina, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. In addition, no material amounts of intangible assets were acquired. As a result, management recorded no goodwill. A net increase of $333.7 million was recorded in stockholders' equity related to the merger.

The following condensed statement of net assets acquired reflects the fair value assigned to Carolina's net assets as of the date of acquisition.

	Carolina
Assets:	
Net loans	$ 1,732,955
Accrued interest receivable	17,473
Other assets	52,749
Total assets	$ 1,803,177
Liabilities:	
Notes payable	$ 1,415,420
Accrued interest payable	4,407
Other liabilities	49,633
Total liabilities	$ 1,469,460
Fair value of net assets acquired	$ 333,717

Fair value adjustments to Carolina's assets and liabilities included a $198.7 million decrease to loans and a $142.4 million decrease to notes payable to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis.

Note 10 — Subsequent Events

The Association evaluated subsequent events and determined that, except for as described below, there were none requiring disclosure through November 8, 2023, which was the date the financial statements were issued.

On October 27, 2023 the AgFirst Board of Directors approved an increase to the Association Investment in AgFirst from 1.00 percent to 1.50 percent effective October 31, 2023. This resulted in an increase in the equity investment in AgFirst of $17.7 million to $65.7 million.