AgGeorgia 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 AgGeorgia 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.

James R. Crain
Chief Executive Officer

Brandie L. Thompson
Chief Financial Officer

Jack W. Bentley Jr.
Chairman of the Board

November 8, 2023

AgGeorgia 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 effected 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.

James R. Crain
Chief Executive Officer

Brandie L. Thompson
Chief Financial Officer

November 8, 2023

AgGeorgia 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 AgGeorgia Farm Credit, ACA (Association or AgGeorgia) for the period ended September 30, 2023. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2022 Annual Report of the Association.

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 range of agricultural commodities including poultry, cotton, timber, peanuts and livestock. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The total loan volume of the Association as of September 30, 2023 was $1,340 million, an increase of $97 million as compared to $1,243 million at December 31, 2022. Net loans outstanding at September 30, 2023 were $1,336 million, as compared to $1,237 million at December 31, 2022. This increase in loan volume is primarily related to advances on operating loans and long term real estate loans. Net loans accounted for 95.8 percent of total assets at September 30, 2023, as compared to 95.9 percent of total assets at December 31, 2022.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has remained stable, and credit administration remains satisfactory. Nonaccrual loans increased from $5,043 thousand at December 31, 2022 to $7,207 thousand at September 30, 2023.

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 $4,734 thousand compared to $5,767 thousand at December 31, 2022, and was considered by management to be adequate to cover probable losses. See Note 1 of the Notes to the Consolidated Financial Statements for additional information regarding the implementation of the CECL accounting standard and the day 1 impact on the allowance for loan losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2023

Net income for the three months ended September 30, 2023 totaled $6,069 thousand, as compared to $6,440 thousand for the same period in 2022. This decrease is a combination of higher net interest income and noninterest income offset by higher provision for loan losses and operation expenses in 2023 as compared to 2022. Net interest income for the period increased $322 thousand compared to the same period in 2022, for a total of $10,534 thousand for the period ended September 30, 2023.

Non-interest income for the three months ended September 30, 2023, totaled $3,171 thousand, as compared to $2,434 thousand for the same period of 2022. This increase is primarily due to increased loan fees and patronage refunds during third quarter 2023 as compared to the third quarter 2022. Non-interest expense for the three months ended September 30, 2023 totaled $6,648 thousand, an increase of $430 thousand as compared to the same period of 2022, which was primarily related to increased salaries, employee benefit and occupancy expenses in third quarter 2023.

For the nine months ended September 30, 2023

Net income for the nine months ended September 30, 2023, totaled $18,932 thousand as compared to $19,089 thousand for the same period in 2022. Net interest income increased $2,088 thousand for the nine months ended September 30, 2023, as compared to the same period in 2022. This increase is the result of higher loan volume earning interest income in 2023. The Association recorded a provision for loan losses reversal of $1,221 thousand for the nine months ended September 30, 2022, as compared to an expense of $1,622 thousand for the same period in 2023.

Non-interest income for the nine months ended September 30, 2023, totaled $8,399 thousand as compared to $7,347 thousand for the same period of 2022, an increase of $1,052 thousand. Higher Patronage refunds from other Farm Credit institutions, fee income and gain on sales of fixed assets in 2023 versus 2022 led to the increase in non-interest income. Non-interest expense for the nine months ended September 30, 2023, increased $456 thousand compared to the same period of 2022. This overall increase is the result of increases in occupany and equipment, purchased services, data process and general operating expenses offset by decreases in salaries, employee benefits and Insurance Fund premiums.

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 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 $1,089,260 thousand as compared to $981,101 thousand at December 31, 2022.

CAPITAL RESOURCES

Total members' equity at September 30, 2023 increased $12,862 thousand to $289,328 thousand from the December 31, 2022 total of $276,466 thousand. The increase is primarily related to year to date net income offset by allocated retained earning distribution during June 2023.

Total capital stock and participation certificates were $4,853 thousand on September 30, 2023, compared to $4,730 thousand on December 31, 2022. This increase is attributed to the issuance of stock on new loans being greater than the retirement of stock on loans liquidated in the normal course of business.

Regulatory Capital Ratios

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

Ratio (ADB Amount)	**Regulatory Minimum, Including Buffer**	**9/30/2023**	**12/31/2022**	**9/30/2022**
Permanent Capital Ratio	7.00%	19.43%	21.10%	20.78%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	19.37%	21.00%	20.69%
Tier 1 Capital Ratio	8.50%	19.37%	21.00%	20.69%
Total Capital Ratio	10.50%	19.69%	21.46%	21.14%
Tier 1 Leverage Ratio	5.00%	19.75%	21.10%	20.84%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	15.83%	16.29%	16.00%

** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. The requirements are based on regulatory ratios as defined by the FCA and include permanent capital, common equity tier 1 (CET1), tier 1, total capital, tier 1 leverage, and unallocated retained earnings (URE) and URE equivalents leverage ratios.

The permanent capital, CET1, tier 1, and total capital ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by a risk-adjusted asset base. Unlike these ratios, the tier 1 leverage and URE and URE equivalents leverage ratios do not incorporate any risk-adjusted weighting of assets. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. The tier 1 leverage and URE and URE equivalents leverage ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions.

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.

For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

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.

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 478-987-8300 Ext. 113, writing Brandie Thompson, Chief Financial Officer, AgGeorgia Farm Credit, ACA, P.O. Box 1820, Perry, GA 31069, or accessing the website, *www.aggeorgia.com*. The Association prepares a 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.

AgGeorgia Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2023 *(unaudited)*	December 31, 2022 *(audited)*
Assets		
Cash	**$ 10**	$ 10
Loans	**1,340,697**	1,242,615
Allowance for loan losses	**(4,734)**	(5,767)
Net loans	**1,335,963**	1,236,848
Loans held for sale	**23**	—
Accrued interest receivable	**17,619**	14,122
Equity investments in other Farm Credit institutions	**15,750**	15,818
Premises and equipment, net	**16,256**	12,708
Accounts receivable	**7,360**	8,967
Other assets	**1,410**	1,933
Total assets	**$ 1,394,391**	$ 1,290,406
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,089,260**	$ 981,101
Accrued interest payable	**3,547**	2,669
Patronage refunds payable	**1,100**	16,573
Accounts payable	**1,838**	2,023
Other liabilities	**9,318**	11,574
Total liabilities	**1,105,063**	1,013,940
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**4,853**	4,730
Retained earnings		
Allocated	**48,264**	56,491
Unallocated	**236,069**	215,103
Accumulated other comprehensive income	**142**	142
Total members' equity	**289,328**	276,466
Total liabilities and members' equity	**$ 1,394,391**	$ 1,290,406

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

AgGeorgia 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	**$ 21,105**	$ 17,390	**$ 58,225**	$ 47,293
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**10,571**	7,178	**27,166**	18,322
Net interest income	**10,534**	10,212	**31,059**	28,971
Provision for (reversal of) allowance for credit losses	**995**	(12)	**1,622**	(1,221)
Net interest income after provision for (reversal of) allowance for credit losses	**9,539**	10,224	**29,437**	30,192
Noninterest Income				
Loan fees	**237**	113	**668**	452
Fees for financially related services	**72**	9	**118**	33
Patronage refunds from other Farm Credit institutions	**2,549**	2,304	**7,297**	6,884
Gains (losses) on sales of rural home loans, net	**41**	—	**60**	—
Gains (losses) on sales of premises and equipment, net	**218**	105	**196**	105
Gains (losses) on other transactions	**53**	(97)	**52**	(128)
Other noninterest income	**1**	—	**8**	1
Total noninterest income	**3,171**	2,434	**8,399**	7,347
Noninterest Expense				
Salaries and employee benefits	**4,062**	3,834	**11,946**	12,214
Occupancy and equipment	**570**	351	**1,028**	802
Insurance Fund premiums	**458**	465	**1,293**	1,307
Purchased services	**368**	234	**876**	721
Data processing	**59**	92	**242**	200
Other operating expenses	**1,128**	1,098	**3,520**	3,090
(Gains) losses on other property owned, net	**3**	144	**6**	121
Total noninterest expense	**6,648**	6,218	**18,911**	18,455
Income before income taxes	**6,062**	6,440	**18,925**	19,084
Provision (benefit) for income taxes	**(7)**	3	**(7)**	4
Net income	**$ 6,069**	$ 6,437	**$ 18,932**	$ 19,080
Other comprehensive income net of tax				
Employee benefit plans adjustments	**—**	3	**—**	9
Comprehensive income	**$ 6,069**	$ 6,440	**$ 18,932**	$ 19,089

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

AgGeorgia Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2021	$ 4,653	$ 65,912	$ 199,971	$ (417)	$ 270,119
Comprehensive income			19,080	9	19,089
Capital stock/participation certificates issued/(retired), net	168				168
Retained earnings retired		(9,421)			(9,421)
Patronage distribution adjustment			(258)		(258)
Balance at September 30, 2022	$ 4,821	$ 56,491	$ 218,793	$ (408)	$ 279,697
Balance at December 31, 2022	**$ 4,730**	**$ 56,491**	**$ 215,103**	**$ 142**	**$ 276,466**
Cumulative effect of change in accounting principle			**2,034**		**2,034**
Comprehensive income			**18,932**		**18,932**
Capital stock/participation certificates issued/(retired), net	**123**				**123**
Retained earnings retired		**(8,227)**			**(8,227)**
Balance at September 30, 2023	**$ 4,853**	**$ 48,264**	**$ 236,069**	**$ 142**	**$ 289,328**

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

AgGeorgia 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 AgGeorgia 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.

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 U.S. 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	$	5,767	$	(2,113)	$	3,654
Liabilities:						
Allowance for credit losses on unfunded commitments	$	–	$	79	$	79
Retained earnings:						
Unallocated retained earnings	$	215,103	$	2,034	$	217,137

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	$ 1,046,505	$ 978,391
Production and intermediate-term	222,580	210,509
Agribusiness:		
Loans to cooperatives	1,400	1,985
Processing and marketing	36,149	26,283
Farm-related business	4,060	3,287
Rural infrastructure:		
Communication	6,725	3,889
Power and water/waste disposal	3,838	
Rural residential real estate	17,195	15,601
Other:		
International	2,245	2,670
Total loans	$ 1,340,697	$ 1,242,615

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 Farm Credit Administration (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	$ 16,583	$ 83,120	$ –	$ –	$ –	$ –	$ 16,583	$ 83,120
Production and intermediate-term	16,741	5,602	550	–	–	–	17,291	5,602
Agribusiness	22,105	121,835	–	–	–	–	22,105	121,835
Rural infrastructure	10,590	–	–	–	–	–	10,590	–
Other	2,251	–	–	–	–	–	2,251	–
Total	$ 68,270	$ 210,557	$ 550	$ –	$ –	$ –	$ 68,820	$ 210,557

	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	$ 10,356	$ 77,676	$ –	$ –	$ –	$ –	$ 10,356	$ 77,676
Production and intermediate-term	17,423	14,253	277	–	–	–	17,700	14,253
Agribusiness	15,870	62,466	–	–	–	–	15,870	62,466
Rural infrastructure	3,900	–	–	–	–	–	3,900	–
Other	2,676	–	–	–	–	–	2,676	–
Total	$ 50,225	$ 154,395	$ 277	$ –	$ –	$ –	$ 50,502	$ 154,395

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	98.78%	98.51%
OAEM	0.67	0.92
Substandard/doubtful/loss	0.55	0.57
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	96.54%	94.99%
OAEM	0.96	1.78
Substandard/doubtful/loss	2.50	3.23
	100.00%	100.00%
Agribusiness:		
Acceptable	97.34%	100.00%
OAEM	2.66	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural infrastructure:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.72%	98.53%
OAEM	1.28	1.47
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	98.37%	97.96%
OAEM	0.78	1.05
Substandard/doubtful/loss	0.85	0.99
	100.00%	100.00%

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

Accrued interest receivable on loans of $17,619 and $14,122 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	$ 5,372	$ 1,421	$ 6,793	$ 1,039,712	$ 1,046,505	$ –
Production and intermediate-term	1,874	1,140	3,014	219,566	222,580	–
Agribusiness	99	–	99	41,510	41,609	–
Rural infrastructure	–	–	–	10,563	10,563	–
Rural residential real estate	218	–	218	16,977	17,195	–
Other	–	–	–	2,245	2,245	–
Total	$ 7,563	$ 2,561	$ 10,124	$ 1,330,573	$ 1,340,697	$ –

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	$ 7,249	$ 756	$ 8,005	$ 980,478	$ 988,483	$ –
Production and intermediate-term	648	1,448	2,096	212,174	214,270	–
Agribusiness	–	–	–	31,746	31,746	–
Rural infrastructure	–	–	–	3,890	3,890	–
Rural residential real estate	388	–	388	15,269	15,657	–
Other	–	–	–	2,691	2,691	–
Total	$ 8,285	$ 2,204	$ 10,489	$ 1,246,248	$ 1,256,737	$ –

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

	September 30, 2023
Nonaccrual loans:	
Real estate mortgage	$ 1,785
Production and intermediate-term	5,422
Total	$ 7,207
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 7,207
Other property owned	–
Total nonperforming assets	$ 7,207
Nonaccrual loans as a percentage of total loans	0.54%
Nonperforming assets as a percentage of total loans and other property owned	0.54%
Nonperforming assets as a percentage of capital	2.49%

	December 31, 2022*
Nonaccrual loans:	
Real estate mortgage	$ 2,530
Production and intermediate-term	2,513
Total	$ 5,043
Accruing restructured loans:	
Real estate mortgage	$ 15,934
Production and intermediate-term	9,165
Rural residential real estate	5
Total	$ 25,104
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 30,147
Other property owned	–
Total nonperforming assets	$ 30,147
Nonaccrual loans as a percentage of total loans	0.41%
Nonperforming assets as a percentage of total loans and other property owned	2.43%
Nonperforming assets as a percentage of capital	10.90%

* *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	$ 311	$ 1,474	$ 1,785	$ 85	$ 213
Production and intermediate-term	538	4,884	5,422	257	646
Total	$ 849	$ 6,358	$ 7,207	$ 342	$ 859

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	$ 3,315	$ 794	$ 79	$ 5	$ 11	$ 1	$ 4,205
Charge-offs	–	–	–	–	–	–	–
Recoveries	1	7	–	–	–	–	8
Provision for loan losses	418	60	39	1	2	1	521
Balance at September 30, 2023	$ 3,734	$ 861	$ 118	$ 6	$ 13	$ 2	$ 4,734
Allowance for Unfunded Commitments:							
Balance at June 30, 2023	$ 10	$ 43	$ 54	$ –	$ –	$ 1	$ 108
Provision for unfunded commitments	469	(4)	9	–	–	–	474
Balance at September 30, 2023	$ 479	$ 39	$ 63	$ –	$ –	$ 1	$ 582
Total allowance for credit losses	$ 4,213	$ 900	$ 181	$ 6	$ 13	$ 3	$ 5,316
Allowance for Loan Losses:							
Balance at December 31, 2022	$ 3,708	$ 1,868	$ 152	$ 3	$ 34	$ 2	$ 5,767
Cumulative effect of a change in accounting principle	(1,040)	(963)	(85)	(1)	(23)	(1)	(2,113)
Balance at January 1, 2023	$ 2,668	$ 905	$ 67	$ 2	$ 11	$ 1	$ 3,654
Charge-offs	(3)	(137)	–	–	–	–	(140)
Recoveries	1	100	–	–	–	–	101
Provision for loan losses	1,068	(7)	51	4	2	1	1,119
Balance at September 30, 2023	$ 3,734	$ 861	$ 118	$ 6	$ 13	$ 2	$ 4,734
Allowance for Unfunded Commitments:							
Balance at December 31, 2022	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Cumulative effect of a change in accounting principle	1	25	53	–	–	–	79
Balance at January 1, 2023	$ 1	$ 25	$ 53	$ –	$ –	$ –	$ 79
Provision for unfunded commitments	478	14	10	–	–	1	503
Balance at September 30, 2023	$ 479	$ 39	$ 63	$ –	$ –	$ 1	$ 582
Total allowance for credit losses	$ 4,213	$ 900	$ 181	$ 6	$ 13	$ 3	$ 5,316
Allowance for Loan Losses*:							
Balance at June 30, 2022	$ 3,477	$ 2,098	$ 94	$ 3	$ 30	$ 1	$ 5,703
Charge-offs	–	–	–	–	–	–	–
Recoveries	–	118	–	–	–	–	118
Provision for loan losses	40	(119)	62	–	3	2	(12)
Balance at September 30, 2022	$ 3,517	$ 2,097	$ 156	$ 3	$ 33	$ 3	$ 5,809
Balance at December 31, 2021	$ 4,146	$ 2,533	$ 92	$ –	$ 33	$ 1	$ 6,805
Charge-offs	–	(21)	–	–	–	–	(21)
Recoveries	29	217	–	–	–	–	246
Provision for loan losses	(658)	(632)	64	3	–	2	(1,221)
Balance at September 30, 2022	$ 3,517	$ 2,097	$ 156	$ 3	$ 33	$ 3	$ 5,809

**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.

The Association had loans held for sale of $23 and $0 at September 30, 2023 and December 31, 2022, respectively. Such loans are carried at the lower of cost or fair value.

Troubled Debt Restructurings

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

The following 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	$ –	$ 152	$ –	$ 152	
Total	$ –	$ 152	$ –	$ 152	
Post-modification:					
Production and intermediate-term	$ –	$ 159	$ –	$ 159	$ –
Total	$ –	$ 159	$ –	$ 159	$ –

	Nine Months Ended September 30, 2022*				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 315	$ 158	$ –	$ 473	
Production and intermediate-term	–	5,040	–	5,040	
Total	$ 315	$ 5,198	$ –	$ 5,513	
Post-modification:					
Real estate mortgage	$ 316	$ 160	$ –	$ 476	$ –
Production and intermediate-term	–	5,047	–	5,047	–
Total	$ 316	$ 5,207	$ –	$ 5,523	$ –

**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.

There were no 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.

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

	December 31, 2022*	
	Total TDRs	**Nonaccrual TDRs**
Real estate mortgage	$ 16,207	$ 273
Production and intermediate-term	10,674	1,509
Rural residential real estate	5	–
Total loans	$ 26,886	$ 1,782
Additional commitments to lend	$ –	

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

Note 3 — Investments

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 3.79 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 $1,282 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, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Employee Benefit Plans:				
Balance at beginning of period	$ 142	$ (411)	$ 142	$ (417)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	–	3	–	9
Net current period other comprehensive income	–	3	–	9
Balance at end of period	$ 142	$ (408)	$ 142	$ (408)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ –	$ (3)	$ –	$ (9)	See Note 7.
Net amounts reclassified	$ –	$ (3)	$ –	$ (9)	

(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	$ 1,755	$ –	$ –	$ 1,755
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ 632	$ 632
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	$ 1,816	$ –	$ –	$ 1,816
Nonrecurring assets				
Impaired loans*	$ –	$ –	$ 1,006	$ 1,006
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	$ 225	$ 241	$ 635	$ 724
401(k)	182	172	730	677
Other postretirement benefits	193	195	601	590
Total	$ 600	$ 608	$ 1,966	$ 1,991

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 money 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 remote 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 — Subsequent Events

The Association evaluated subsequent events and determined that, except 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 $5.9 million to $20.4 million.