ArborOne, ACA

THIRD QUARTER 2023

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2023 quarterly report of **ArborOne, 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.

Bryant Sansbury
Bryant Sansbury
President and Chief Executive Officer

Brad J. Fjestad
Brad J. Fjestad
Chief Financial Officer and Treasurer

William Dupree Atkinson
William Dupree Atkinson
Chairman of the Board

November 8, 2023

ArborOne, 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.

Bryant Sansbury

Bryant Sansbury
President and Chief Executive Officer

Brad J. Fjestad

Brad J. Fjestad
Chief Financial Officer and Treasurer

November 8, 2023

ArborOne, 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 **ArborOne, ACA**, (the Association) for the period ended September 30, 2023. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2022 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

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 in our region, including cash grains, cotton, forestry, and poultry. Farm size varies and many of the borrowers in the region have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, somewhat impact the level of dependency on any one commodity. Approximately 34.5% percent of the portfolio has significant outside income to diversify dependence on agriculture, consisting of lifestyle loans and loans to less than full-time farmers with non-agricultural dependent income. Further, approximately 11.5 percent of the loan portfolio carries federal guarantees as a risk management tool.

The gross loan volume of the Association as of September 30, 2023, was $660,516, an increase of $39,359 as compared to $621,157 at December 31, 2022. Net loans outstanding at September 30, 2023, were $649,649 as compared to $609,305 at December 31, 2022 which was an increase of $40,344 for the reporting period. This increase was mainly the result of additional draws on revolving lines of credit, additional fixed rate real estate loans, and an increase in participation loans. The Association had investment securities classified as held-to-maturity in the amount of $5,019. Net loans and investments accounted for 96 percent of total assets at September 30, 2023, which was unchanged from December 31, 2022.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual loans decreased from $5,764 on December 31, 2022, to $3,653 at September 30, 2023. Of the $2,111 decrease, a significant portion was from charge-offs on accounts with reserves set aside in previous quarters, as well as ongoing collection efforts and accounts that were returned to accrual status.

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 economic conditions. The allowance for loan losses at September 30, 2023, was $10,867, compared to $11,852 at December 31, 2022 consisting of both general and specific loan reserves. Effective January 1, 2023 the Association implemented a change in accounting method (CECL) in regards to the allowance for loan losses. Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements* for additional information on the Association's implementation of the CECL accounting standard and the day 1 impact on the allowance for loan losses.

Investment securities held-to-maturity (HTM) consist of mission related investments (Rural America Bonds). The HTM investment securities decreased by $61 when compared to December 31, 2022. This decrease was mainly due to normal payments totaling $56, and the amortization of the net unrealized loss from the transfer to HTM in the amount of $5. As of September 30, 2023, approximately 87 percent of the Association's HTM Rural America Bonds were guaranteed; therefore, the risk of credit loss to the Association was reduced. There were no unrealized credit impairments on the HTM investment portfolio as of December 31, 2022, and none were taken during the first nine months of 2023.

As of September 30, 2023, the Association had three properties valued at $161 classed as Other Property Owned (OPO). These were all new properties added in the second and third quarter of 2023 as all properties held at December 31, 2022 were sold in the first quarter of 2023.

RESULTS OF OPERATIONS

For the three months ended September 30, 2023

Net income for the three months ended September 30, 2023, totaled $3,408 as compared to $2,929 for the same period in 2022, which is an increase of $479 or 16%. An increase in noninterest income and a decrease in operating expenses for the three months were the main contributing factors to the overall increase in net income as compared to the same period in 2022.

Net interest income for the three months ended September 30, 2023 was $5,071, a $573 increase from the $4,498 reported for the same period in 2022, as loan volume and interest rates increased. Interest expense increased by $1,944 for the three months ended September 30, 2023, as compared to the same period in 2022, primarily due to the increase in loan volume and rise in federal funds rate driving interest costs higher. Net interest income for the three months ending September 30, 2023 and 2022 is shown below:

	For the three months ended September 30,			
Net Interest Income:	**2023**	**2022**	**$ Change**	**% Change**
Loan interest income	$ 10,802	$ 8,283	$ 2,519	30.4%
Investment interest income	64	66	(2)	(3.0)%
Total interest income	10,866	8,349	2,517	30.1%
Total interest expense	5,795	3,851	1,944	50.5%
Net Interest Income	$ 5,071	$ 4,498	$ 573	12.7%

The Association recorded a $1,158 allowance provision for credit losses for the quarter ending September 30, 2023 which was $559 more than the provision for the same period of 2022. Unfunded commitments accounted for $217 of the additional provisions in the quarter ending September 30, 2023. Prior to January 1, 2023, provisions for unfunded commitments were reported as other gains (losses) within noninterest income but are now included with the provision for credit losses after the adoption of CECL. Other provisions were made for accounts that moved into nonaccrual status as well as for the increase in loan volume. Provisions for credit losses for the three months ending September 30, 2023 and 2022 is shown in the following table:

	For the three months ended September 30,		
Provision for (reversal of):	**2023**	**2022**	**$ Change**
General Reserves	$ 587	$ 532	$ 55
Specific Reserves	354	67	287
Reserve for unfunded commitments	217	–	217
Total Provisions/(Reversals) for Credit Losses	$ 1,158	$ 599	$ 559

Noninterest income for the three months ended September 30, 2023, totaled $2,084 as compared to $1,797 for the same period of 2022, an increase of $287. This increase was mainly due to an increase in loan fees on new loans, patronage accrued, and commissions received on crop insurance policies.

Noninterest expense for the three months ended September 30, 2023 decreased $212 compared to the same period in 2022, primarily due to a decrease in other operating expenses and collection of prior costs incurred on substandard accounts. Salary and employee benefits costs were higher in the quarter which reduced some of the impact of the decreased operating expenses. The main reasons for the decrease in other operating expenses were a decrease in travel and training costs and a reduction in costs related to nonaccrual loans.

The Association recorded no provision for income taxes for the three months ended September 30, 2023, compared to a provision reduction of $34 for the same period in 2022.

For the nine months ended September 30, 2023

Net income for the nine months ended September 30, 2023, totaled $10,035, as compared to $10,034 for the same period in 2022. While there was no significant overall change in the net income when comparing the periods there were some fluctuations within the main components of net income. Net interest income was significantly higher for the period and noninterest income also reported an increase, but additional provisions on credit losses recorded in the nine months of 2023 compared to a provision reversal reported in the nine months of 2022 offset the additional interest income.

Net interest income increased by $1,324, which was primarily a result of the increase in loan volume and interest rates. Loan interest income was $6,968 higher for the period but partially offset by the $5,585 of additional interest expense which also increased with the additional loan volume and rising cost of debt. Net interest income for the nine months ending September 30, 2023 and 2022 is shown in the table below:

	For the nine months ended September 30,			
Net Interest Income:	**2023**	**2022**	**$ Change**	**% Change**
Loan interest income	$ 29,632	$ 22,664	$ 6,968	30.7%
Investment interest income	189	248	(59)	(23.8)%
Total interest income	29,821	22,912	6,909	30.2%
Total interest expense	15,168	9,583	5,585	58.3%
Net Interest Income	$ 14,653	$ 13,329	$ 1,324	9.9%

The Association recorded an additional provision for credit losses of $1,210 for the nine months ended September 30, 2023, as compared to a provision reversal of $502 for the same period in 2022. The increase in provision cost was primarily from an increase in the general reserve provisions as loan volume has increased and the calculation model has changed with the implementation of CECL (see Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements* for additional information on the Association's implementation of the CECL accounting standard). $321 of the additional provisions reported for the nine months ending September 30, 2023 was for unfunded commitments that had previously been reported as other gains (losses) within noninterest income prior to January 1, 2023. Provisions for credit losses for the nine months ending September 30, 2023 and 2022 are shown in the following table:

	For the nine months ended September 30,		
Provision for (reversal of):	**2023**	**2022**	**$ Change**
General Reserves	$ 792	$ (610)	$ 1,402
Specific Reserves	97	108	(11)
Reserve for unfunded commitments	321	–	321
Total Provisions/(Reversals) for Credit Losses	$ 1,210	$ (502)	$ 1,712

Noninterest income for the nine months ended September 30, 2023, totaled $4,702 as compared to $4,383 for the same period of 2022, an increase of $319. Additional loan fees and investment gains in the deferred compensation plan compared to losses in the same period of the prior year were the main factors.

Noninterest expense for the nine months ended September 30, 2023, decreased $91 compared to the same period of 2022. Increases in salaries and employee benefit costs were offset by a decrease in other operating expenses and collection of prior costs incurred on substandard accounts for the same nine months of 2022.

The Association recorded no provision for income taxes for the nine months ended September 30, 2023, as compared to a provision reduction of $21 recorded for the same period in 2022.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (AgFirst or 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 funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate section is utilized by the Association to fund variable rate loan advances and operating needs. The fixed rate section 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 $552,090 as compared to $514,102 at December 31, 2022. The increase during the period was a result of the increase in loan volume.

CAPITAL RESOURCES

Total members' equity increased by $11,431 from $110,636 at December 31, 2022 to $122,067 at September 30, 2023, primarily due to current year earnings. Total capital stock and participation certificates were $1,961 on September 30, 2023, compared to $1,914 on December 31, 2022.

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association had an unrealized gain of $7 as of September 30, 2023 for FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Association had an unrealized net loss of $6 as of September 30, 2023 on the HTM investment securities. The resulting effect was a net gain of $1 to Accumulated Other Comprehensive Income for the nine months ending September 30, 2023.

FCA sets minimum regulatory capital requirements for System Banks and Associations. The System's capital requirements are compatible with the Basel III framework and the standardized approach of federal banking regulatory agencies.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations. Refer to Note 7, *Members' Equity*, of the Association's 2022 Annual Report for additional information.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2023
Risk-adjusted ratios:				
CET1 Capital Ratio	4.5%	2.5%	7.0%	16.96%
Tier 1 Capital Ratio	6.0%	2.5%	8.5%	16.96%
Total Capital Ratio	8.0%	2.5%	10.5%	18.21%
Permanent Capital Ratio	7.0%	–%	7.0%	17.16%
Non-risk-adjusted ratios:				
Tier 1 Leverage Ratio **	4.0%	1.0%	5.0%	16.79%
UREE Leverage Ratio	1.5%	–%	1.5%	11.09%

** Includes fully phased-in capital conservation buffers which became effective January 1, 2020.*
*** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

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 the period presented, the Association exceeded minimum regulatory standards for all the ratios.

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 1-800-741-7332, writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, ***www.arborone.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.

ArborOne, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2023 (unaudited)	December 31, 2022 (audited)
Assets		
Cash	**$ 2**	$ 3
Investments in debt securities:		
Held to maturity (fair value of $4,484 and $4,618, respectively)	**5,019**	5,080
Loans	**660,516**	621,157
Allowance for loan losses	**(10,867)**	(11,852)
Net loans	**649,649**	609,305
Accrued interest receivable	**12,607**	9,168
Equity investments in other Farm Credit institutions	**8,150**	8,183
Premises and equipment, net	**3,889**	3,639
Other property owned	**161**	137
Accounts receivable	**3,110**	3,932
Other assets	**940**	1,134
Total assets	**$ 683,527**	$ 640,581
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 552,090**	$ 514,102
Accrued interest payable	**1,982**	1,539
Patronage refunds payable	**419**	6,494
Accounts payable	**634**	926
Advanced conditional payments	**1,907**	—
Other liabilities	**4,428**	6,884
Total liabilities	**561,460**	529,945
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**1,961**	1,914
Retained earnings		
Allocated	**76,627**	76,191
Unallocated	**43,566**	32,619
Accumulated other comprehensive income (loss)	**(87)**	(88)
Total members' equity	**122,067**	110,636
Total liabilities and members' equity	**$ 683,527**	$ 640,581

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

ArborOne, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2023	2022	For the Nine Months Ended September 30, 2023	2022
Interest Income				
Loans	**$ 10,802**	$ 8,283	**$ 29,632**	$ 22,664
Investments	**64**	66	**189**	248
Total interest income	**10,866**	8,349	**29,821**	22,912
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**5,795**	3,851	**15,168**	9,583
Net interest income	**5,071**	4,498	**14,653**	13,329
Provision for (reversal of) allowance for credit losses	**1,158**	599	**1,210**	(502)
Net interest income after provision for (reversal of) allowance for credit losses	**3,913**	3,899	**13,443**	13,831
Noninterest Income				
Loan fees	**268**	186	**916**	791
Fees for financially related services	**740**	706	**823**	843
Patronage refunds from other Farm Credit institutions	**1,039**	1,000	**2,936**	2,915
Gains (losses) on sales of rural home loans, net	**12**	—	**13**	—
Gains (losses) on sales of premises and equipment, net	**—**	(32)	**(4)**	(32)
Gains (losses) on other transactions	**25**	(63)	**14**	(137)
Other noninterest income	**—**	—	**4**	3
Total noninterest income	**2,084**	1,797	**4,702**	4,383
Noninterest Expense				
Salaries and employee benefits	**1,778**	1,707	**5,466**	5,294
Occupancy and equipment	**97**	89	**289**	266
Insurance Fund premiums	**214**	224	**609**	638
Purchased services	**100**	49	**331**	226
Data processing	**36**	58	**89**	113
Other operating expenses	**455**	598	**1,409**	1,561
(Gains) losses on other property owned, net	**(91)**	76	**(83)**	103
Total noninterest expense	**2,589**	2,801	**8,110**	8,201
Income before income taxes	**3,408**	2,895	**10,035**	10,013
Provision (benefit) for income taxes	**—**	(34)	**—**	(21)
Net income	**$ 3,408**	$ 2,929	**$ 10,035**	$ 10,034
Other comprehensive income net of tax				
Unrealized gains (losses) on investments	**(2)**	(2)	**(6)**	(130)
Employee benefit plans adjustments	**2**	4	**7**	11
Other comprehensive income (loss) (Note 5)	**—**	2	**1**	(119)
Comprehensive income	**$ 3,408**	$ 2,931	**$ 10,036**	$ 9,915

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

ArborOne, 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	$ 1,858	$ 70,277	$ 29,495	$ (65)	$ 101,565
Comprehensive income (loss)			10,034	(119)	9,915
Capital stock/participation certificates issued/(retired), net	40				40
Patronage distribution adjustment		235	(235)		—
Balance at September 30, 2022	$ 1,898	$ 70,512	$ 39,294	$ (184)	$ 111,520
Balance at December 31, 2022	**$ 1,914**	**$ 76,191**	**$ 32,619**	**$ (88)**	**$ 110,636**
Cumulative effect of change in accounting principle			**1,411**		**1,411**
Comprehensive income			**10,035**	**1**	**10,036**
Capital stock/participation certificates issued/(retired), net	**47**				**47**
Patronage distribution adjustment		**436**	**(499)**		**(63)**
Balance at September 30, 2023	**$ 1,961**	**$ 76,627**	**$ 43,566**	**$ (87)**	**$ 122,067**

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

ArborOne, 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 **ArborOne**, 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	$	11,852	$	(1,173)	$	10,679
Liabilities:						
Allowance for credit losses on unfunded commitments	$	611	$	(238)	$	373
Retained earnings:						
Unallocated retained earnings	$	32,619	$	1,411	$	34,030

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.

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 (the pooled component), 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 pooled 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	$ 380,096	$ 361,028
Production and intermediate-term	194,735	193,060
Agribusiness:		
Loans to cooperatives	2,635	2,106
Processing and marketing	36,100	32,986
Farm-related business	21,894	15,616
Rural infrastructure:		
Communication	2,807	2,918
Power and water/waste disposal	8,283	685
Rural residential real estate	12,667	11,033
Other:		
International	1,299	1,725
Total loans	$ 660,516	$ 621,157

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	$ 10,923	$ 8,771	$ –	$ –	$ –	$ –	$ 10,923	$ 8,771
Production and intermediate-term	19,600	1,523	–	–	–	–	19,600	1,523
Agribusiness	32,548	–	–	–	–	–	32,548	–
Rural infrastructure	11,118	–	–	–	–	–	11,118	–
Other	1,304	–	–	–	–	–	1,304	–
Total	$ 75,493	$ 10,294	$ –	$ –	$ –	$ –	$ 75,493	$ 10,294

	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	$ 11,034	$ 3,416	$ –	$ –	$ –	$ –	$ 11,034	$ 3,416
Production and intermediate-term	18,277	2,244	–	–	–	–	18,277	2,244
Agribusiness	28,005	13,600	–	–	–	–	28,005	13,600
Rural infrastructure	3,611	–	–	–	–	–	3,611	–
Other	1,728	–	–	–	–	–	1,728	–
Total	$ 62,655	$ 19,260	$ –	$ –	$ –	$ –	$ 62,655	$ 19,260

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	94.65%	93.94%
OAEM	4.67	4.42
Substandard/doubtful/loss	0.68	1.64
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	93.14%	90.74%
OAEM	5.10	6.84
Substandard/doubtful/loss	1.76	2.42
	100.00%	100.00%
Agribusiness:		
Acceptable	90.06%	91.32%
OAEM	7.80	6.01
Substandard/doubtful/loss	2.14	2.67
	100.00%	100.00%
Rural infrastructure:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	96.17%	95.98%
OAEM	3.60	2.22
Substandard/doubtful/loss	0.23	1.80
	100.00%	100.00%
Other:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	93.91%	92.82%
OAEM	4.98	5.22
Substandard/doubtful/loss	1.11	1.96
	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 $12,509 and $9,120 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	$ 1,511	$ 835	$ 2,346	$ 377,750	$ 380,096	$ –
Production and intermediate-term	261	657	918	193,817	194,735	–
Agribusiness	214	64	278	60,351	60,629	–
Rural infrastructure	–	–	–	11,090	11,090	–
Rural residential real estate	328	10	338	12,329	12,667	–
Other	–	–	–	1,299	1,299	–
Total	$ 2,314	$ 1,566	$ 3,880	$ 656,636	$ 660,516	$ –

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	$ 2,614	$ 343	$ 2,957	$ 362,791	$ 365,748	$ –
Production and intermediate-term	213	2,113	2,326	194,502	196,828	–
Agribusiness	–	4	4	51,274	51,278	–
Rural infrastructure	–	–	–	3,607	3,607	–
Rural residential real estate	41	13	54	11,017	11,071	–
Other	–	–	–	1,744	1,744	–
Total	$ 2,868	$ 2,473	$ 5,341	$ 624,935	$ 630,276	$ –

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

	September 30, 2023
Nonaccrual loans:	
Real estate mortgage	$ 1,745
Production and intermediate-term	1,274
Agribusiness	624
Rural residential real estate	10
Total	$ 3,653
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 3,653
Other property owned	161
Total nonperforming assets	$ 3,814
Nonaccrual loans as a percentage of total loans	0.55%
Nonperforming assets as a percentage of total loans and other property owned	0.58%
Nonperforming assets as a percentage of capital	3.13%

	December 31, 2022*
Nonaccrual loans:	
Real estate mortgage	$ 2,127
Production and intermediate-term	2,622
Agribusiness	815
Rural residential real estate	200
Total	$ 5,764
Accruing restructured loans:	
Real estate mortgage	$ 2,969
Production and intermediate-term	1,093
Agribusiness	217
Total	$ 4,279
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 10,043
Other property owned	137
Total nonperforming assets	$ 10,180
Nonaccrual loans as a percentage of total loans	0.93%
Nonperforming assets as a percentage of total loans and other property owned	1.64%
Nonperforming assets as a percentage of capital	9.20%

* *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	$ 1,264	$ 481	$ 1,745	$ 157	$ 393
Production and intermediate-term	896	378	1,274	115	287
Agribusiness	489	135	624	56	140
Rural residential real estate	–	10	10	1	2
Total	$ 2,649	$ 1,004	$ 3,653	$ 329	$ 822

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	$ 6,178	$ 3,640	$ 1,097	$ 16	$ 186	$ 13	$ 11,130
Charge-offs	(898)	(316)	(185)	–	–	–	(1,399)
Recoveries	3	192	–	–	–	–	195
Provision for loan losses	222	207	449	23	35	5	941
Balance at September 30, 2023	$ 5,505	$ 3,723	$ 1,361	$ 39	$ 221	$ 18	$ 10,867
Allowance for Unfunded Commitments:							
Balance at June 30, 2023	$ 62	$ 309	$ 103	$ –	$ 1	$ 2	$ 477
Provision for unfunded commitments	(7)	137	85	–	–	2	217
Balance at September 30, 2023	$ 55	$ 446	$ 188	$ –	$ 1	$ 4	$ 694
Total allowance for credit losses	$ 5,560	$ 4,169	$ 1,549	$ 39	$ 222	$ 22	$ 11,561
Allowance for Loan Losses:							
Balance at December 31, 2022	$ 4,095	$ 6,371	$ 1,244	$ 23	$ 113	$ 6	$ 11,852
Cumulative effect of a change in accounting principle	1,804	(2,974)	(89)	(7)	82	11	(1,173)
Balance at January 1, 2023	$ 5,899	$ 3,397	$ 1,155	$ 16	$ 195	$ 17	$ 10,679
Charge-offs	(899)	(391)	(185)	–	–	–	(1,475)
Recoveries	50	694	30	–	–	–	774
Provision for loan losses	455	23	361	23	26	1	889
Balance at September 30, 2023	$ 5,505	$ 3,723	$ 1,361	$ 39	$ 221	$ 18	$ 10,867
Allowance for Unfunded Commitments:							
Balance at December 31, 2022	$ 9	$ 513	$ 87	$ –	$ 2	$ –	$ 611
Cumulative effect of a change in accounting principle	3	(239)	(2)	–	(1)	1	(238)
Balance at January 1, 2023	$ 12	$ 274	$ 85	$ –	$ 1	$ 1	$ 373
Provision for unfunded commitments	43	172	103	–	–	3	321
Balance at September 30, 2023	$ 55	$ 446	$ 188	$ –	$ 1	$ 4	$ 694
Total allowance for credit losses	$ 5,560	$ 4,169	$ 1,549	$ 39	$ 222	$ 22	$ 11,561
Allowance for Loan Losses*:							
Balance at June 30, 2022	$ 3,973	$ 6,453	$ 1,162	$ 5	$ 105	$ 6	$ 11,704
Charge-offs	–	(155)	–	–	–	–	(155)
Recoveries	80	46	–	–	–	–	126
Provision for loan losses	(14)	556	39	19	3	(4)	599
Balance at September 30, 2022	$ 4,039	$ 6,900	$ 1,201	$ 24	$ 108	$ 2	$ 12,274
Balance at December 31, 2021	$ 3,929	$ 7,599	$ 1,388	$ 5	$ 110	$ 6	$ 13,037
Charge-offs	(41)	(630)	(111)	–	(5)	–	(787)
Recoveries	80	254	192	–	–	–	526
Provision for loan losses	71	(323)	(268)	19	3	(4)	(502)
Balance at September 30, 2022	$ 4,039	$ 6,900	$ 1,201	$ 24	$ 108	$ 2	$ 12,274

**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 no loans held for sale at September 30, 2023 and December 31, 2022.

Troubled Debt Restructurings

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

The following table presents additional information regarding troubled debt restructurings that occurred during the period. There were no new TDRs that occurred during the three months ended September 30, 2022.

. Outstanding Recorded Investment	Nine Months Ended September 30, 2022* Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Farm-related business	$ –	$ 1,082	$ –	$ 1,082	
Total	$ –	$ 1,082	$ –	$ 1,082	
Post-modification:					
Farm-related business	$ –	$ 1,129	$ –	$ 1,129	$ –
Total	$ –	$ 1,129	$ –	$ 1,129	$ –

**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- or nine-month periods 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 in impaired loans:

	December 31, 2022* Total TDRs	Nonaccrual TDRs
Real estate mortgage	$ 2,969	$ –
Production and intermediate-term	1,361	268
Agribusiness	1,032	815
Total loans	$ 5,362	$ 1,083
Additional commitments to lend	$ –	

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

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At 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	$ 5,019	$ –	$ (535)	$ 4,484	5.63%

	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 5,080	$ –	$ (462)	$ 4,618	5.63%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities 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	5,019	4,484	5.63
Total	$ 5,019	$ 4,484	5.63%

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	$ 4,618	$ (462)	$ –	$ –

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 2.04 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 $361 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
Unrealized gains (losses) on Investments:				
Balance at beginning of period	$ 110	$ 118	$ 114	$ 246
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	(2)	(2)	(6)	(130)
Net current period other comprehensive income	(2)	(2)	(6)	(130)
Balance at end of period	$ 108	$ 116	$ 108	$ 116
Employee Benefit Plans:				
Balance at beginning of period	$ (197)	$ (304)	$ (202)	$ (311)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	2	4	7	11
Net current period other comprehensive income	2	4	7	11
Balance at end of period	$ (195)	$ (300)	$ (195)	$ (300)
Accumulated Other Comprehensive Income:				
Balance at beginning of period	$ (87)	$ (186)	$ (88)	$ (65)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	–	2	1	(119)
Net current period other comprehensive income	–	2	1	(119)
Balance at end of period	$ (87)	$ (184)	$ (87)	$ (184)

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
Investment Securities:					
Amortization	$ 2	$ 2	$ 6	$ 130	Interest income on investments
Net amounts reclassified	2	2	6	130	
Defined Benefit Pension Plans:					
Periodic pension costs	(2)	(4)	(7)	(11)	See Note 7.
Net amounts reclassified	(2)	(4)	(7)	(11)	
Total reclassifications for period	$ –	$ (2)	$ (1)	$ 119	

(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 and 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	$ 622	$ –	$ –	$ 622
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ 1,690	$ 1,690
Other property owned	$ –	$ –	$ 181	$ 181

	December 31, 2022			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 898	$ –	$ –	$ 898
Nonrecurring assets				
Impaired loans*	$ –	$ –	$ 2,903	$ 2,903
Other property owned	$ –	$ –	$ 150	$ 150

**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	$ 70	$ 59	$ 202	$ 178
401(k)	98	109	292	350
Other postretirement benefits	72	61	194	186
Total	$ 240	$ 229	$ 688	$ 714

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 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 $2.8 million to $10.6 million.