

# FIRST QUARTER 2023

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## CERTIFICATION

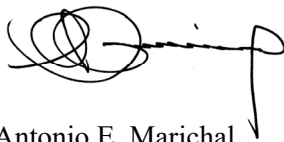
The undersigned certify that we have reviewed the March 31, 2023 quarterly report of Puerto Rico Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that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



Rafael J. Borges  
Chairman of The Board of Directors



Ricardo L. Fernández  
Chief Executive Officer



Antonio E. Marichal  
Chairman of the Audit Committee



Frances Marquez  
Comptroller

May 9, 2023

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

*(dollars in thousands)*

The following commentary reviews the consolidated financial condition and results of operations of Puerto Rico Farm Credit, ACA (Association) for the period ended March 31, 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.

The Association obtains funding through a borrowing relationship with AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected by the financial condition and results of operations of the Bank.

## CLIMATE CHANGE

Agricultural production is and always has been vulnerable to weather events and climate change. The USDA has recognized that the changing climate presents threats to U.S. and global agricultural production and rural communities. The impact of climate change including its effect on weather is, and will continue to be, a challenge for agricultural producers. Among the risks of climate change are:

- rising average temperatures,
- more frequent and severe storms,
- more forest fires, and
- extremes in flooding and droughts.

However, risks associated with climate change are mitigated, to some degree, by agricultural producers' ability to navigate changing industry dynamics from numerous perspectives, including trade, government policy, consumer preferences and weather. Producers regularly adopt new technologies, agronomic practices and financial strategies in response to evolving trends to ensure their competitiveness.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing short and intermediate-term loans and long-term real estate mortgage loans. The Association also maintains a portfolio of purchased loans (PL), originated by other Farm Credit System entities and non-system entities. The Association's predominant chartered territory (CT) agricultural commodities were dairy, fruits (including plantains and coffee) and processing industries which totaled approximately \$66,725 or 37.52 percent of the gross principal balance, net of sold loans, at March 31, 2023.

The gross accruing loan volume of the Association at March 31, 2023 was \$178,758 a decrease of \$7,191 or 3.87 percent as compared to \$185,949 at December 31, 2022. Loans originated within the Association's chartered territory were lower by approximately \$2,257 and participation purchased loans increased by approximately \$4,934. The loan volume decrease was a result of lower originations and the scheduled repayments.

Net loans at March 31, 2023 totaled \$176,003 as compared to \$179,723 at December 31, 2022. Net loans made up 96.26 percent of total assets at March 31, 2023, as compared to 96.03 percent at December 31, 2022.

Non-accrual loans totaled \$9,932 or 5.64 percent of total loans at March 31, 2023, compared to \$5,692 or 3.17 percent of total loans at December 31, 2022. Non-accrual loans increased \$4,240 during 2023 primarily due to a Participation loan placed in non-accrual during the period.

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The overall delinquency rate for the accruing loan portfolio remains at approximately \$4,000 during the first quarter. Management does not expect high risk loans to increase significantly by the end of the year.

The Association adopted the Financial Accounting Standards Board (FASB) guidance entitled “Measurement of Credit Losses on Financial Instruments” and other subsequently issued accounting standards updates related to current expected credit losses (CECL) on January 1, 2023. This guidance replaced the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost and certain off-balance sheet credit exposures. This change of methodology did not have any material impact on the allowance calculation.

The allowance for credit losses increased \$2,157 to \$3,336 at March 31, 2023 from \$1,189 at December 31, 2022. The increase was primarily related to a PL placed as non-accrual during the period. Specific and general reserves for CT loans remained stable. CECL new methodology slightly impacted the allowance by \$11. Management will continue to monitor certain risks and other factors that may increase the risk of the portfolio, such as climate conditions, government fiscal policy and overall economic conditions on the island.

During 2023, charge-offs of \$1 were recorded and recoveries of \$2 were recognized on payments received for CT nonaccrual loans. The Association is actively marketing acquired properties and may incur additional accounting losses or gains as sales are completed.

Puerto Rico has endured a prolonged economic downturn for more than 16 years. GDP continues a downward trend that started in 2006 with a few upticks on years after unique events have led to federal funds to increase on the island. Since then, Puerto Rico’s economy has struggled for multiple reasons, including the lack of a sustainable economic plan, natural disasters and the pandemic. This economic environment is expected to continue over the next 12 months with the added component of the war in Ukraine and the global supply chain disruption which has had an impact on farming operations on the island.

The Fiscal Planning Board continues to work on stabilizing the central government finances and settle the debt for the government-owned power company. The island began repaying certain debt but additional work is required through many of the government agencies.

Puerto Rico’s economy will remain stable but fragile amidst the continuing impact of the pandemic, the war in Ukraine and the impact of Hurricane Fiona. The Association expects to continue to improve performance as interest in local agriculture slowly grows. The Board of Directors and Management will continue to work with the government and other entities in moving forward the island’s agricultural sector. Economists continue to forecast a minor increase in GDP of 1% due to additional federal funds being received. The forecast over the next three years is for a stable economy which is good for the island as it continues to recover from the major events already discussed. The only impediment in maintaining economic stability is the risk of interest rates continuing to rise while inflation continues to soar to levels not seen in decades.

Through all this, the agricultural sector’s outlook is stable and farmers will continue to fair well under the current market conditions. This should allow farmers to continue managing their operations profitably and maintain the credit quality of the Association’s portfolio while limiting loan growth opportunities.

The local dairy industry production remained stable in 2023 compared to 2022. The Association continues to monitor events within the industry and their potential impact on the performance of the dairy portfolio. The Association lends almost 17.52 percent of total chartered territory loans to the dairy industry and has implemented risk management practices to mitigate concentration risk.

Other agricultural sectors do not represent significant risk for the association. Management monitors all sectors and does not anticipate any adverse impact to the portfolio in 2023.

The Association will continue to find creative ways to fulfill its public mission. Leadership of the ACA believes that agriculture is still viable on the island and has many opportunities ahead. However, the Board of Directors and Management remain cautious of the Association’s ability to grow the portfolio under the prevailing economic and political environment.

## **RESULTS OF OPERATIONS**

### **For the three months ended March 31, 2023**

The Association recorded a net loss for the three months ended March 31, 2023 of \$1,402 as compared to net income of \$275 for the same period in 2022. This \$1,677 decrease in net income is primarily attributed to an increase in provision expense of \$2,077. Excluding the impact of said provision our net income would have ended at \$699.

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Net interest income was \$1,514 for the three months ended March 31, 2023 compared to \$1,056 for the same period in 2022, representing an increase of \$974 or 43.42 percent primarily resulting from higher interest rates.

Provision for loan losses was \$2,101 for the three months ended March 31, 2023 compared to \$24 for the same period in 2022, resulting from a PL loan placed as non-accrual during the current period, impacting our allowance by \$2,158. Overall provision decreased by \$80.

Noninterest income for the three months ended March 31, 2023 totaled \$325 compared to \$302 for the same period of 2022, resulting in an increase of \$23 or 7.50 percent, mainly due to an increase in the loan fees.

Noninterest expense was \$1,140 for the three months ended March 31, 2023 as compared to \$1,059 for the same period in 2022, resulting in an increase of \$81 or 7.62 percent. This increase was primarily driven by increases of \$92 in salaries and employee benefits.

## **LIQUIDITY AND FUNDING SOURCES**

### *Liquidity*

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses, and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

### *Funding Sources*

The principal source of funds for the Association is the borrowing relationship established with 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 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 notes. The variable rate notes are utilized by the Association to fund variable rate loan advances and operating fund requirements. The fixed rate notes are used specifically to fund fixed rate loan advances made by the Association.

The total notes payable to the Bank at March 31, 2023 was \$117,690 as compared to \$122,638 at December 31, 2022. The increase of \$4,948 or 4.03 percent is primarily due to a decrease in loan volume outstanding during the period. The Association had no lines of credit outstanding with third parties as of March 31, 2023.

### *Funds Management*

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the Secured Overnight Financing Rate (SOFR). Fixed rate loans are priced based on the current cost of Farm Credit System debt of similar terms to maturity. The Association does not offer or include adjustable rate mortgages (ARMS) in its portfolio of loan products.

The majority of the interest rate risk in the Association balance sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control interest rate risk associated with the loan portfolio.

## **CAPITAL RESOURCES**

Total members' equity at March 31, 2023 decreased by \$1,305 or 2.16 percent to \$59,161 from December 31, 2022 total of \$60,466. The decrease was primarily attributable to year-to-date net loss.

Total capital stock and participation certificates were \$507 at March 31, 2023 compared to \$514 at December 31, 2022. The decrease of \$7 was the result of the capital stock and participation certificates issued and redeemed in the normal course of business.

Unallocated retained earnings was \$59,952 at March 31, 2023 compared to \$59,952 at December 31, 2022.

**Key financial condition ratios were as follows:**

|                                | 3/31/2023 | 12/31/2022 |
|--------------------------------|-----------|------------|
| Total Members' Equity to Asset | 2.03%     | 2.07%      |

**Regulatory Capital Ratios**

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

|                                                                        | Regulatory<br>Minimum,<br>Including Buffer* | 3/31/2023 | 12/31/2022 | 3/31/2022 |
|------------------------------------------------------------------------|---------------------------------------------|-----------|------------|-----------|
| Common Equity Tier 1 (CET1) Capital Ratio                              | 7.0%                                        | 33.44%    | 32.27%     | 33.30%    |
| Tier 1 Capital Ratio                                                   | 8.5%                                        | 33.44%    | 32.27%     | 33.30%    |
| Total Regulatory Capital Ratio                                         | 10.5%                                       | 34.18%    | 33.08%     | 34.09%    |
| Permanent Capital Ratio                                                | 7.0%                                        | 32.55%    | 32.50%     | 33.54%    |
| Tier 1 Leverage Ratio**                                                | 5.0%                                        | 32.27%    | 31.32%     | 31.98%    |
| Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio | 1.5%                                        | 33.69%    | 31.05%     | 31.70%    |

\*Includes fully phased-in capital conservation buffers which became effective on January 1, 2020.

\*\*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 common equity tier 1 (CET1), tier 1, total capital, permanent 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 April 14, 2022, the FCA approved a final rule that amends certain regulations to address changes in accounting principles generally accepted in the United States. Such changes reflect the Current Expected Credit Losses (CECL) methodology that replaced the incurred loss methodology upon adoption. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities are included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets are not eligible for inclusion in a System institution's Tier 2 capital. The regulation did not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. In addition, the regulation did not include an exclusion for the CECL day 1 cumulative effective adjustment from the "safe harbor" deemed prior approval provision. The final rule became effective on January 1, 2023.

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

regulatory agencies and recognizes the increased risk posed by HVCRE exposures. The public comment period ended on January 24, 2022.

### ***LIBOR Transition***

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

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

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

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

| <i>(dollars in thousands)</i>            | <b>Due in 2023<br/>(On or Before<br/>June 30 2023)</b> | <b>Due After<br/>June30, 2023</b> | <b>Total</b> |
|------------------------------------------|--------------------------------------------------------|-----------------------------------|--------------|
| Loans                                    | \$ —                                                   | \$ 16,638                         | \$ 16,638    |
| Total                                    | \$ —                                                   | \$ 16,638                         | \$ 16,638    |
| Note Payable to AgFirst Farm Credit Bank | \$ —                                                   | 12,183                            | \$ 12,183    |
| Total                                    | \$ —                                                   | \$ 28,321                         | \$ 28,321    |

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

### **OTHER MATTERS**

During 2021, the Association continued its service agreement with Farm Credit of Florida, ACA for a fee. The provided services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources and, loan on-boarding and servicing. On March 1, 2022, Farm Credit of Florida provided notice of non-renewal of the services agreement effective on the annual renewal date in September 2022. During the third quarter 2022, the parties agreed to extend the termination date to November 15, 2022. The Association is currently working on a transition plan for the provided services.

During October 2022, the Association sold various Other Property Owned properties with a total recorded investment of \$916 and recorded gains on sale of \$4,115 and write down recoveries of \$719.

### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

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

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**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 its website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-981-3323, or writing Alice Rivera, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936-3649, or accessing the website, [www.prfarmcredit.com](http://www.prfarmcredit.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 Association.

# Puerto Rico Farm Credit, ACA

## Consolidated Balance Sheets

| <i>(dollars in thousands)</i>                        | March 31,<br>2023<br><i>(unaudited)</i> | December 31,<br>2022<br><i>(audited)</i> |
|------------------------------------------------------|-----------------------------------------|------------------------------------------|
| <b>Assets</b>                                        |                                         |                                          |
| Cash                                                 | \$ 1,656                                | \$ 1,244                                 |
| Loans                                                | 176,003                                 | 179,723                                  |
| Allowance for loan losses                            | <u>(3,336)</u>                          | <u>(1,189)</u>                           |
| Net loans                                            | 172,667                                 | 178,534                                  |
| Accrued interest receivable                          | 1,172                                   | 1,251                                    |
| Equity investments in other Farm Credit institutions | 1,992                                   | 1,982                                    |
| Premises and equipment, net                          | 807                                     | 844                                      |
| Other property owned                                 | 691                                     | 755                                      |
| Accounts receivable                                  | 305                                     | 1,256                                    |
| Other assets                                         | <u>86</u>                               | <u>54</u>                                |
| Total assets                                         | <u>\$ 179,376</u>                       | <u>\$ 185,920</u>                        |
| <b>Liabilities</b>                                   |                                         |                                          |
| Notes payable to AgFirst Farm Credit Bank            | \$ 117,690                              | \$ 122,638                               |
| Accrued interest payable                             | 449                                     | 415                                      |
| Patronage refunds payable                            | 43                                      | 1,007                                    |
| Accounts payable                                     | 315                                     | 402                                      |
| Other liabilities                                    | <u>1,718</u>                            | <u>992</u>                               |
| Total liabilities                                    | <u>120,215</u>                          | <u>125,454</u>                           |
| Commitments and contingencies (Note 7)               |                                         |                                          |
| <b>Members' Equity</b>                               |                                         |                                          |
| Capital stock and participation certificates         | 507                                     | 514                                      |
| Unallocated retained earnings                        | <u>58,654</u>                           | <u>59,952</u>                            |
| Total members' equity                                | <u>59,161</u>                           | <u>60,466</u>                            |
| Total liabilities and members' equity                | <u>\$ 179,376</u>                       | <u>\$ 185,920</u>                        |

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



**Puerto Rico Farm Credit, ACA**

# **Consolidated Statements of Comprehensive Income**

*(unaudited)*

|                                                       | <b>For the Three Months<br/>Ended March 31,</b> |             |
|-------------------------------------------------------|-------------------------------------------------|-------------|
| <i>(dollars in thousands)</i>                         | <b>2023</b>                                     | <b>2022</b> |
| <b>Interest Income</b>                                |                                                 |             |
| Loans                                                 | \$ 2,828                                        | \$ 1,596    |
| <b>Interest Expense</b>                               |                                                 |             |
| Notes payable to AgFirst Farm Credit Bank             | 1,314                                           | 540         |
| Net interest income                                   | 1,514                                           | 1,056       |
| Provision for credit losses                           | 2,101                                           | 24          |
| Net interest income after provision for credit losses | (587)                                           | 1,032       |
| <b>Noninterest Income</b>                             |                                                 |             |
| Loan fees                                             | 62                                              | 30          |
| Patronage refunds from other Farm Credit institutions | 263                                             | 263         |
| Gains (losses) on other transactions                  | —                                               | 9           |
| Total noninterest income                              | 325                                             | 302         |
| <b>Noninterest Expense</b>                            |                                                 |             |
| Salaries and employee benefits                        | 540                                             | 448         |
| Occupancy and equipment                               | 62                                              | 50          |
| Insurance Fund premiums                               | 47                                              | 38          |
| Purchased services                                    | 195                                             | 271         |
| Data processing                                       | 10                                              | 15          |
| Other operating expenses                              | 236                                             | 226         |
| (Gains) losses on other property owned, net           | 50                                              | 11          |
| Total noninterest expense                             | 1,140                                           | 1,059       |
| <b>Net income (loss)</b>                              | \$ (1,402)                                      | \$ 275      |
| Other comprehensive income                            | —                                               | —           |
| <b>Comprehensive income (loss)</b>                    | \$ (1,402)                                      | \$ 275      |

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

Puerto Rico Farm Credit, ACA

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

| <i>(dollars in thousands)</i>                                             | Capital<br>Stock and<br>Participation<br>Certificates | Unallocated<br>Retained<br>Earnings | Total<br>Members'<br>Equity |
|---------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------|-----------------------------|
| Balance at December 31, 2021                                              | \$ 470                                                | \$ 54,840                           | \$ 55,310                   |
| Comprehensive income (loss)                                               |                                                       | 275                                 | 275                         |
| Capital stock/participation<br>certificates issued/(retired), net         | 10                                                    |                                     | 10                          |
| Balance at March 31, 2022                                                 | \$ 480                                                | \$ 55,115                           | \$ 55,595                   |
| <b>Balance at December 31, 2022</b>                                       | <b>\$ 514</b>                                         | <b>\$ 59,952</b>                    | <b>\$ 60,466</b>            |
| <b>Cumulative effect of change in<br/>accounting principle</b>            |                                                       | <b>104</b>                          | <b>104</b>                  |
| <b>Comprehensive income (loss)</b>                                        |                                                       | <b>(1,402)</b>                      | <b>(1,402)</b>              |
| <b>Capital stock/participation<br/>certificates issued/(retired), net</b> | <b>(7)</b>                                            |                                     | <b>(7)</b>                  |
| <b>Balance at March 31, 2023</b>                                          | <b>\$ 507</b>                                         | <b>\$ 58,654</b>                    | <b>\$ 59,161</b>            |

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

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

### **Basis of Presentation**

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

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

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

### **Significant Accounting Policies**

The Association's accounting and reporting policies conform with 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 5, *Fair Value Measurement*). Actual results could differ from those estimates.

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

### **Accounting Standards Effective During the Period**

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

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

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

|                                                     | December 31, 2022 | CECL Adoption Impact | January 1, 2023 |
|-----------------------------------------------------|-------------------|----------------------|-----------------|
| <b>Assets:</b>                                      |                   |                      |                 |
| Allowance for credit losses on loans                | \$ 1,189          | \$ (11)              | \$ 1,178        |
| <b>Liabilities:</b>                                 |                   |                      |                 |
| Allowance for credit losses on unfunded commitments | \$ 167            | \$ (93)              | \$ 74           |
| <b>Retained earnings:</b>                           |                   |                      |                 |
| Unallocated retained earnings                       | \$ 59,952         | \$ 104               | \$ 60,056       |

### *Loans and Allowance for Credit Losses*

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

### *Nonaccrual Loans*

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

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

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

### *Accrued interest receivable*

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

### *Loan Modifications to Borrowers Experiencing Financial Difficulty*

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

### *Collateral dependent loans*

Collateral dependent loans are loans secured by collateral, including but not limited to agricultural real estate, crop inventory, equipment and livestock. CECL requires an entity to measure the expected credit losses based on fair value of the collateral at the reporting date

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when the entity determines that foreclosure is probable. Additionally, CECL allows a fair value practical expedient as a measurement approach for loans when the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulties. Under the practical expedient measurement approach, the expected credit loss is based on the difference between the fair value of the collateral less estimated costs to sell and the amortized cost basis of the loan.

#### *Allowance for Credit Losses*

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

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

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

#### *Methodology for Allowance for Credit Losses on Loans*

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

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

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

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

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

- lending policies and procedures;
- national, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
- the nature of the loan portfolio, including the terms of the loans;

- the experience, ability and depth of the lending management and other relevant staff;
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- the quality of the loan review and process;
- the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

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

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

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

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

#### *Allowance for Credit Losses on Unfunded Commitments*

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

## **Note 2 — Loans and Allowance for Credit Losses**

A summary of loans outstanding at period end follows:

|                                  | March 31, 2023 | December 31, 2022 |
|----------------------------------|----------------|-------------------|
| Real estate mortgage             | \$ 56,326      | \$ 57,743         |
| Production and intermediate-term | 59,428         | 60,752            |
| Agribusiness:                    |                |                   |
| Loans to cooperatives            | 1,583          | 1,866             |
| Processing and marketing         | 38,923         | 40,261            |
| Farm-related business            | 45             | 47                |
| Rural infrastructure:            |                |                   |
| Communication                    | 10,965         | 10,673            |
| Power and water/waste disposal   | 435            | —                 |
| Rural residential real estate    | 5,515          | 5,878             |
| Other:                           |                |                   |
| International                    | 2,783          | 2,503             |
| Total loans                      | \$ 176,003     | \$ 179,723        |

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:

| March 31, 2023                   |                          |                     |                           |                     |                            |                     |                          |                     |
|----------------------------------|--------------------------|---------------------|---------------------------|---------------------|----------------------------|---------------------|--------------------------|---------------------|
|                                  | Within AgFirst District  |                     | Within Farm Credit System |                     | Outside Farm Credit System |                     | Total                    |                     |
|                                  | Participations Purchased | Participations Sold | Participations Purchased  | Participations Sold | Participations Purchased   | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage             | \$ 6,174                 | \$ 3,601            | \$ —                      | \$ —                | \$ —                       | \$ —                | \$ 6,174                 | \$ 3,601            |
| Production and intermediate-term | 17,674                   | —                   | —                         | —                   | 5,492                      | —                   | 23,166                   | —                   |
| Agribusiness                     | 31,165                   | 9,088               | —                         | —                   | —                          | —                   | 31,165                   | 9,088               |
| Rural infrastructure             | 11,442                   | —                   | —                         | —                   | —                          | —                   | 11,442                   | —                   |
| Other                            | 2,792                    | —                   | —                         | —                   | —                          | —                   | 2,792                    | —                   |
| Total                            | \$ 69,247                | \$ 12,689           | \$ —                      | \$ —                | \$ 5,492                   | \$ —                | \$ 74,739                | \$ 12,689           |

| 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             | \$ 6,270                 | \$ 3,690            | \$ —                      | \$ —                | \$ —                       | \$ —                | \$ 6,270                 | \$ 3,690            |
| Production and intermediate-term | 17,835                   | —                   | —                         | —                   | 5,540                      | —                   | 23,375                   | —                   |
| Agribusiness                     | 32,655                   | 8,231               | —                         | —                   | —                          | —                   | 32,655                   | 8,231               |
| Rural infrastructure             | 10,677                   | —                   | —                         | —                   | —                          | —                   | 10,677                   | —                   |
| Other                            | 2,503                    | —                   | —                         | —                   | —                          | —                   | 2,503                    | —                   |
| Total                            | \$ 69,940                | \$ 11,921           | \$ —                      | \$ —                | \$ 5,540                   | \$ —                | \$ 75,480                | \$ 11,921           |

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

|                                          | March 31, 2023 | December 31, 2022* |
|------------------------------------------|----------------|--------------------|
| <b>Real estate mortgage:</b>             |                |                    |
| Acceptable                               | 98.73%         | 98.75%             |
| OAEM                                     | 0.66           | 0.65               |
| Substandard/doubtful/loss                | 0.61           | 0.60               |
|                                          | 100.00%        | 100.00%            |
| <b>Production and intermediate-term:</b> |                |                    |
| Acceptable                               | 86.73%         | 84.67%             |
| OAEM                                     | —              | —                  |
| Substandard/doubtful/loss                | 13.27          | 15.33              |
|                                          | 100.00%        | 100.00%            |
| <b>Agribusiness:</b>                     |                |                    |
| Acceptable                               | 98.13%         | 100.00%            |
| OAEM                                     | 1.87           | —                  |
| Substandard/doubtful/loss                | —              | —                  |
|                                          | 100.00%        | 100.00%            |
| <b>Rural infrastructure:</b>             |                |                    |
| Acceptable                               | 100.00%        | 100.00%            |
| OAEM                                     | —              | —                  |
| Substandard/doubtful/loss                | —              | —                  |
|                                          | 100.00%        | 100.00%            |
| <b>Rural residential real estate:</b>    |                |                    |
| Acceptable                               | 95.55%         | 95.71%             |
| OAEM                                     | 3.43           | 3.25               |
| Substandard/doubtful/loss                | 1.02           | 1.04               |
|                                          | 100.00%        | 100.00%            |
| <b>Other:</b>                            |                |                    |
| Acceptable                               | 100.00%        | 100.00%            |
| OAEM                                     | —              | —                  |
| Substandard/doubtful/loss                | —              | —                  |
|                                          | 100.00%        | 100.00%            |
| <b>Total loans:</b>                      |                |                    |
| Acceptable                               | 94.54%         | 94.27%             |
| OAEM                                     | 0.75           | 0.32               |
| Substandard/doubtful/loss                | 4.71           | 5.41               |
|                                          | 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 \$1,172 and \$1,251 at March 31, 2023 and December 31, 2022, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

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

|                                  | March 31, 2023                    |                             |                   |                                                     |             |                                             |
|----------------------------------|-----------------------------------|-----------------------------|-------------------|-----------------------------------------------------|-------------|---------------------------------------------|
|                                  | 30 Through<br>89 Days<br>Past Due | 90 Days or<br>More Past Due | Total Past<br>Due | Not Past Due<br>or Less Than<br>30 Days Past<br>Due | Total Loans | 90 Days or<br>More Past Due<br>and Accruing |
| Real estate mortgage             | \$ 231                            | \$ 357                      | \$ 588            | \$ 55,738                                           | \$ 56,326   | \$ —                                        |
| Production and intermediate-term | 940                               | 1,745                       | 2,685             | 56,743                                              | 59,428      | 738                                         |
| Agribusiness                     | 429                               | —                           | 429               | 40,122                                              | 40,551      | —                                           |
| Rural infrastructure             | —                                 | —                           | —                 | 11,400                                              | 11,400      | —                                           |
| Rural residential real estate    | 154                               | —                           | 154               | 5,361                                               | 5,515       | —                                           |
| Other                            | —                                 | —                           | —                 | 2,783                                               | 2,783       | —                                           |
| Total                            | \$ 1,754                          | \$ 2,102                    | 3,856             | \$ 172,147                                          | \$ 176,003  | \$ 738                                      |



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

|                                  | December 31, 2022                 |                             |                   |                                                     |             |                                                |
|----------------------------------|-----------------------------------|-----------------------------|-------------------|-----------------------------------------------------|-------------|------------------------------------------------|
|                                  | 30 Through<br>89 Days<br>Past Due | 90 Days or<br>More Past Due | Total Past<br>Due | Not Past Due<br>or Less Than<br>30 Days Past<br>Due | Total Loans | 90 Days or<br>More Past<br>Due and<br>Accruing |
| Real estate mortgage             | \$ 20                             | \$ 357                      | \$ 377            | \$ 57,883                                           | \$ 58,260   | \$ —                                           |
| Production and intermediate-term | 2,748                             | 432                         | 3,180             | 58,088                                              | 61,268      | —                                              |
| Agribusiness                     | —                                 | —                           | —                 | 42,344                                              | 42,344      | —                                              |
| Rural infrastructure             | —                                 | —                           | —                 | 10,677                                              | 10,677      | —                                              |
| Rural residential real estate    | 446                               | —                           | 446               | 5,458                                               | 5,904       | —                                              |
| Other                            | —                                 | —                           | —                 | 2,521                                               | 2,521       | —                                              |
| Total                            | \$ 3,214                          | \$ 789                      | \$ 4,003          | \$ 176,971                                          | \$ 180,974  | \$ —                                           |

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

|                                                                                 | March 31, 2023   |
|---------------------------------------------------------------------------------|------------------|
| <b>Nonaccrual loans:</b>                                                        |                  |
| Real estate mortgage                                                            | \$ 1,395         |
| Production and intermediate-term                                                | 8,537            |
| Total                                                                           | <u>\$ 9,932</u>  |
| <b>Accruing loans 90 days or more past due:</b>                                 |                  |
| Production and intermediate-term                                                | \$ 738           |
| Total                                                                           | <u>\$ 738</u>    |
| Total nonperforming loans                                                       | \$ 10,670        |
| Other property owned                                                            | 691              |
| Total nonperforming assets                                                      | <u>\$ 11,361</u> |
| Nonaccrual loans as a percentage of total loans                                 | 5.64%            |
| Nonperforming assets as a percentage of total<br>loans and other property owned | 6.43%            |
| Nonperforming assets as a percentage of capital                                 | <u>19.20%</u>    |

|                                                                                 | December 31, 2022* |
|---------------------------------------------------------------------------------|--------------------|
| <b>Nonaccrual loans:</b>                                                        |                    |
| Real estate mortgage                                                            | \$ 1,404           |
| Production and intermediate-term                                                | 4,288              |
| Total                                                                           | <u>\$ 5,692</u>    |
| <b>Accruing restructured loans:</b>                                             |                    |
| Real estate mortgage                                                            | \$ 879             |
| Production and intermediate-term                                                | 2,051              |
| Rural residential real estate                                                   | 140                |
| Total                                                                           | <u>\$ 3,070</u>    |
| <b>Accruing loans 90 days or more past due:</b>                                 |                    |
| Total                                                                           | <u>\$ —</u>        |
| Total nonperforming loans                                                       | \$ 8,762           |
| Other property owned                                                            | 755                |
| Total nonperforming assets                                                      | <u>\$ 9,517</u>    |
| Nonaccrual loans as a percentage of total loans                                 | 3.17%              |
| Nonperforming assets as a percentage of total<br>loans and other property owned | 5.27%              |
| Nonperforming assets as a percentage of capital                                 | <u>15.74%</u>      |

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

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

|                                  | March 31, 2023                |                                  |          | Three Months Ended March 31, 2023              |
|----------------------------------|-------------------------------|----------------------------------|----------|------------------------------------------------|
|                                  | Amortized Cost with Allowance | Amortized Cost without Allowance | Total    | Interest Income Recognized on Nonaccrual Loans |
| <b>Nonaccrual loans:</b>         |                               |                                  |          |                                                |
| Real estate mortgage             | \$ 13                         | \$ 1,382                         | \$ 1,395 | \$ —                                           |
| Production and intermediate-term | 4,710                         | 3,827                            | 8,537    | 1                                              |
| Total                            | \$ 4,723                      | \$ 5,209                         | \$ 9,932 | \$ 1                                           |

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    |
|-------------------------------------------------------|----------------------|----------------------------------|--------------|----------------------|-------------------------------|-------|----------|
| <b>Allowance for Loan Losses:</b>                     |                      |                                  |              |                      |                               |       |          |
| Balance at December 31, 2022                          | \$ 378               | \$ 385                           | \$ 289       | \$ 69                | \$ 42                         | \$ 26 | \$ 1,189 |
| Cumulative effect of a change in accounting principle | (219)                | 461                              | (146)        | (60)                 | (23)                          | (24)  | (11)     |
| Balance at January 1, 2023                            | \$ 159               | \$ 846                           | \$ 143       | \$ 9                 | \$ 19                         | \$ 2  | \$ 1,178 |
| Charge-offs                                           | —                    | (1)                              | —            | —                    | —                             | —     | (1)      |
| Recoveries                                            | —                    | 2                                | —            | —                    | —                             | —     | 2        |
| Provision for loan losses                             | (1)                  | 2,181                            | (19)         | (1)                  | (2)                           | (1)   | 2,157    |
| Balance at March 31, 2023                             | \$ 158               | \$ 3,028                         | \$ 124       | \$ 8                 | \$ 17                         | \$ 1  | \$ 3,336 |
| <b>Allowance for Unfunded Commitments:</b>            |                      |                                  |              |                      |                               |       |          |
| Balance at December 31, 2022                          | \$ 12                | \$ 43                            | \$ 87        | \$ 15                | \$ —                          | \$ 10 | \$ 167   |
| Cumulative effect of a change in accounting principle | (12)                 | (18)                             | (40)         | (13)                 | —                             | (10)  | (93)     |
| Balance at January 1, 2023                            | \$ —                 | \$ 25                            | \$ 47        | \$ 2                 | \$ —                          | \$ —  | \$ 74    |
| Provision for unfunded commitments                    | —                    | (21)                             | (34)         | (1)                  | —                             | —     | (56)     |
| Balance at March 31, 2023                             | \$ —                 | \$ 4                             | \$ 13        | \$ 1                 | \$ —                          | \$ —  | \$ 18    |
| <b>Total allowance for credit losses</b>              | \$ 158               | \$ 3,032                         | \$ 137       | \$ 9                 | \$ 17                         | \$ 1  | \$ 3,354 |
| <b>Allowance for Loan Losses*:</b>                    |                      |                                  |              |                      |                               |       |          |
| Balance at December 31, 2021                          | \$ 414               | \$ 411                           | \$ 261       | \$ 39                | \$ 55                         | \$ 13 | \$ 1,193 |
| Charge-offs                                           | (24)                 | —                                | —            | —                    | —                             | —     | (24)     |
| Recoveries                                            | 21                   | —                                | —            | —                    | —                             | —     | 21       |
| Provision for loan losses                             | (22)                 | 74                               | (26)         | 5                    | (6)                           | (1)   | 24       |
| Balance at March 31, 2022                             | \$ 389               | \$ 485                           | \$ 235       | \$ 44                | \$ 49                         | \$ 12 | \$ 1,214 |

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

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

The Association had no loans held for sale at March 31, 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. There were no new TDRs that occurred during the three months ended March 31, 2022.

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 months ended March 31, 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 are included as impaired loans:

|                                  | December 31, 2022* |                 |
|----------------------------------|--------------------|-----------------|
|                                  | Total TDRs         | Nonaccrual TDRs |
| Real estate mortgage             | \$ 1,906           | \$ 1,027        |
| Production and intermediate-term | 6,207              | 4,156           |
| Rural residential real estate    | 140                | —               |
| Total loans                      | \$ 8,253           | \$ 5,183        |
| 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 0.48 percent of the issued stock and allocated retained earnings of the Bank as of March 31, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled \$42.6 billion and shareholders' equity totaled \$1.6 billion. The Bank's earnings were \$70 million for the first three months of 2023. In addition, the Association held \$155 in investments 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 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

|                            | March 31, 2023               |         |         |       |                  |       |
|----------------------------|------------------------------|---------|---------|-------|------------------|-------|
|                            | Fair Value Measurement Using |         |         |       | Total Fair Value |       |
|                            | Level 1                      | Level 2 | Level 3 |       |                  |       |
| <b>Recurring assets</b>    |                              |         |         |       |                  |       |
| Assets held in trust funds | \$                           | —       | \$      | —     | \$               | —     |
| <b>Nonrecurring assets</b> |                              |         |         |       |                  |       |
| Nonaccrual loans           | \$                           | —       | \$      | 2,365 | \$               | 2,365 |
| Other property owned       | \$                           | —       | \$      | 737   | \$               | 737   |

|                            | December 31, 2022            |   |         |   |         |                  |
|----------------------------|------------------------------|---|---------|---|---------|------------------|
|                            | Fair Value Measurement Using |   |         |   |         | Total Fair Value |
|                            | Level 1                      |   | Level 2 |   | Level 3 |                  |
| <b>Recurring assets</b>    |                              |   |         |   |         |                  |
| Assets held in trust funds | \$                           | — | \$      | — | \$      | —                |
| <b>Nonrecurring assets</b> |                              |   |         |   |         |                  |
| Impaired loans*            | \$                           | — | \$      | — | \$      | 242              |
| Other property owned       | \$                           | — | \$      | — | \$      | 805              |

\*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.

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**Note 6 — Employee Benefit Plans**

The following is a table of retirement expenses for the Association:

|         | Three Months Ended<br>March 31, |       |
|---------|---------------------------------|-------|
|         | 2023                            | 2022  |
| Pension | \$ 51                           | \$ 52 |
| 401(k)  | 28                              | 21    |
| Total   | \$ 79                           | \$ 73 |

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 7 — 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 8 — Subsequent Events**

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