River Valley AgCredit, ACA

THIRD QUARTER 2023

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2023 quarterly report of River Valley AgCredit, 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.

Kyle M. Yancey
Chief Executive Officer
of River Valley AgCredit, ACA

David L. Richesin
Chairman of the Board
of River Valley AgCredit, ACA

Beth Barkley
Chief Financial Officer
of River Valley AgCredit, ACA

Tiffany Myers
Member of the Board of Directors
Chair of the Audit Committee
of River Valley AgCredit, ACA

November 8, 2023

River Valley AgCredit, ACA

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

FINANCIAL CONDITION
(dollars in thousands)

The following commentary reviews the financial condition and results of operations of River Valley AgCredit, ACA (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. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LIBOR TRANSITION

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

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

The Association had exposure to LIBOR arising from loans made to customers, investment securities purchased, and Systemwide Debt Securities issued by the Funding Corporation. To the extent necessary, substantially all financial instruments that reference LIBOR have been amended to incorporate adequate fallbacks, including, where appropriate, the Secured Overnight Finance Rate (SOFR)-based fallbacks recommended by the Alternative Reference Rates Committee (ARRC).

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including corn, soybeans, poultry, and tobacco. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of September 30, 2023, was $594,237 as compared to $582,422 at December 31, 2022, an increase of $11,815. Net loans outstanding at September 30, 2023, were $592,304 as compared to $575,521 at December 31, 2022. Net loans accounted for 95.39 percent of total assets at September 30, 2023, as compared to 95.75 percent of total assets at December 31, 2022. The increase in gross and net loan volume during the reporting period is primarily attributable to member/borrower operating needs.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from $6,229 at December 31, 2022, to $3,879 at September 30, 2023. This decrease is primarily the result of normal nonaccrual collections and a transfer to other property owned.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2023, was $1,933, compared to $6,901 at December 31, 2022 and was considered by management to be adequate to cover possible losses. Effective January 1, 2023, 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) which resulted in a $4,701 decrease in the general reserves included in the allowance for loan losses. There was also a reserve for unfunded commitments established for $130. 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.

As of September 30, 2023, the allowance for loan losses consisted of $1,665 in general reserves and $268 in specific reserves spread over multiple loans. After consideration of the adjustment for the adoption of the CECL accounting standard mentioned above, the general allowance reserve increased by $317 from January 1, 2023 to September 30, 2023 as loan volume increased. Specific reserves for individually evaluated loans decreased by $584 for the nine months ended September 30, 2023. The Association has a reserve for unfunded commitments for $328, which resides in other liabilities.

Other property owned (OPO) consists primarily of assets once held as loan collateral that were acquired through foreclosure or deeded to the Association (or a lender group) in satisfaction of secured loans. Traditionally, OPO is primarily in the form of real estate. However, it can also include equipment and equity interests in companies or partnerships. The Association held $1,295 in OPO as of September 30, 2023, which was an increase of $1,295 from December 31, 2022.

RESULTS OF OPERATIONS

For the three months ended September 30, 2023

Net income for the three months ended September 30, 2023, totaled $2,192 as compared to $2,283 for the same period in 2022, a decrease of $91. This decrease is attributed primarily to an increase in the provision for allowance for credit losses, but offset by an increase of $689 in net interest income from loan growth as compared to the same period in 2022.

Noninterest income for the three months ended September 30, 2023, totaled $1,160 as compared to $1,159 for the same period in 2022, an increase of $1. This is attributed to increases of $83 in patronage refunds from other farm credit institutions and $66 in gains on other transactions. These were offset by decreases of $70 in fee income, $54 in gains on sale of rural home loans in Farm Credit System, $21 in financially related services and $3 in other noninterest income.

Noninterest expense for the three months ended September 30, 2023, totaled $2,947 as compared to $3,009 for the same period in 2022, a decrease of $62. This decrease in expense is attributed to a $46 decrease in salary and employee benefits, $41 decrease in other operating expenses and $12 decrease in data processing. These were offset by a $19 increase in purchased services, $13 increase in losses on other propery owned and $5 increase in insurance fund premiums.

For the nine months ended September 30, 2023

Net income for the nine months ended September 30, 2023, totaled $6,901, as compared to $6,219 for the same period in 2022. This increase is attributed primarily to net interest income from loan growth. Net interest income increased $1,807 for the nine months ended September 30, 2023, as compared to the same period in 2022. This increase in net interest income is attributed primarily to growth in loan volume. Nonaccrual income was $392 for the nine months ended September 30, 2023, as compared to $495 for the same period in 2022. This decrease is due to normal nonaccrual loan collections.

Noninterest income for the nine months ended September 30, 2023, totaled $3,335, as compared to $3,317 for the same period of 2022, an increase of $18. The increase is the result of an increase of $182 in gains on sales of premises and equipment, $120 in patronage refunds, $66 in gains on other transactions and $2 in loan fees. These were offset by a decrease of $313 in gains on sale of rural home loans, $36 in financially related service fees and $3 in other noninterest income.

Noninterest expense for the nine months ended September 30, 2023, decreased $55 compared to the same period of 2022. The primary reason for the decrease is a decrease in salaries and employee benefits of $61, other operating expense of $20, data processing of $17, losses on other property owned of $6 and a decrease of occupancy and equipment of $2. These were offset by a $45 increase in purchased services and a $6 increase in insurance fund premiums.

For the nine months ending September 30, 2023, the Association recorded $552 of insurance premiums as compared to $546 in 2022, from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The amount is reflected in Noninterest Expenses on the Consolidated Statements of Income.

The Association recorded a provision for loan losses of $702 for the nine months ended September 30, 2023, as compared to a reversal of provision for loan losses of $432 for the same period in 2022. The provision for loan loss is attributed to the change in allowance for the quarter and specific reserves allocated to impaired loans.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2023, was $480,831 compared to $465,253 at December 31, 2022.

CAPITAL RESOURCES

Total members' equity at September 30, 2023, increased to $127,906 from the December 31, 2022, total of $116,595. The increase is primarily attributed to retained earnings and the Day 1 adjustment from the adoption of the new allowance standard that took effect on January 1, 2023. Total capital stock and participation certificates were $4,916 on September 30, 2023, compared to $4,881 on December 31, 2022.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base.

Risk adjusted assets are the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios.
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	4.5%	2.500%	7.00%	18.80%
Tier 1 Capital	6.0%	2.500%	8.50%	18.80%
Total Capital	8.0%	2.500%	10.50%	19.40%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.35%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	19.06%
UREE Leverage Ratio	1.5%	0.0%	1.5%	18.75%

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.

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 (270) 554-2912, ext. 2020, writing Beth Barkley, Chief Financial Officer, River Valley AgCredit, ACA, 2731 Olivet Church Road, Paducah, KY 42001, or accessing the website, *www.rivervalleyagcredit.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.

River Valley AgCredit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2023 *(unaudited)*	December 31, 2022 *(audited)*
Assets		
Cash	**$ 632**	$ 360
Loans	**594,237**	582,422
Allowance for loan losses	**(1,933)**	(6,901)
Net loans	**592,304**	575,521
Loans held for sale	**8**	—
Accrued interest receivable	**9,066**	6,829
Equity investments in other Farm Credit institutions	**7,221**	7,249
Premises and equipment, net	**7,591**	7,667
Other property owned	**1,295**	—
Accounts receivable	**2,711**	3,278
Other assets	**86**	161
Total assets	**$ 620,914**	$ 601,065
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 480,831**	$ 465,253
Accrued interest payable	**1,579**	1,277
Patronage refunds payable	**739**	3,950
Accounts payable	**608**	1,505
Advanced conditional payments	**5,934**	3,962
Other liabilities	**3,317**	8,523
Total liabilities	**493,008**	484,470
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	**4,916**	4,881
Additional paid-in-capital	**15,817**	15,817
Retained earnings		
Allocated	**57,456**	57,633
Unallocated	**49,717**	38,264
Total members' equity	**127,906**	116,595
Total liabilities and members' equity	**$ 620,914**	$ 601,065

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

River Valley AgCredit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Interest Income				
Loans	**$ 9,270**	$ 6,812	**$ 25,951**	$ 19,314
Other	**2**	2	**4**	6
Total interest income	**9,272**	6,814	**25,955**	19,320
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**4,733**	2,994	**12,546**	7,794
Other	**62**	32	**168**	92
Total interest expense	**4,795**	3,026	**12,714**	7,886
Net interest income	**4,477**	3,788	**13,241**	11,434
Provision for (reversal of) allowance for credit losses	**482**	(348)	**702**	(432)
Net interest income after provision for (reversal of) allowance for credit losses	**3,995**	4,136	**12,539**	11,866
Noninterest Income				
Loan fees	**135**	205	**554**	552
Fees for financially related services	**50**	71	**65**	101
Patronage refunds from other Farm Credit institutions	**900**	817	**2,602**	2,482
Gains (losses) on sales of rural home loans, net	**9**	63	**35**	348
Gains (losses) on sales of premises and equipment, net	**—**	—	**11**	(171)
Gains (losses) on other transactions	**66**	—	**66**	—
Other noninterest income	**—**	3	**2**	5
Total noninterest income	**1,160**	1,159	**3,335**	3,317
Noninterest Expense				
Salaries and employee benefits	**2,028**	2,074	**6,178**	6,239
Occupancy and equipment	**132**	132	**418**	420
Insurance Fund premiums	**190**	185	**552**	546
Purchased services	**122**	103	**323**	278
Data processing	**36**	48	**136**	153
Other operating expenses	**425**	466	**1,331**	1,351
(Gains) losses on other property owned, net	**14**	1	**(4)**	2
Total noninterest expense	**2,947**	3,009	**8,934**	8,989
Income before income taxes	**2,208**	2,286	**6,940**	6,194
Provision (benefit) for income taxes	**16**	3	**39**	(25)
Net income	**$ 2,192**	$ 2,283	**$ 6,901**	$ 6,219
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 2,192**	$ 2,283	**$ 6,901**	$ 6,219

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

River Valley AgCredit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2021	$ 4,831	$ 15,817	$ 49,474	$ 39,072	$ 109,194
Comprehensive income				6,219	6,219
Capital stock/participation certificates issued/(retired), net	45				45
Patronage distribution adjustment			1,821	(2,130)	(309)
Balance at September 30, 2022	$ 4,876	$ 15,817	$ 51,295	$ 43,161	$ 115,149
Balance at December 31, 2022	**$ 4,881**	**$ 15,817**	**$ 57,633**	**$ 38,264**	**$ 116,595**
Cumulative effect of change in accounting principle				**4,572**	**4,572**
Comprehensive income				**6,901**	**6,901**
Capital stock/participation certificates issued/(retired), net	**35**				**35**
Patronage distribution adjustment			**(177)**	**(20)**	**(197)**
Balance at September 30, 2023	**$ 4,916**	**$ 15,817**	**$ 57,456**	**$ 49,717**	**$ 127,906**

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

River Valley AgCredit, 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 River Valley AgCredit, 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 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 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	$ 6,901	$ (4,701)	$ 2,200
Liabilities:			
Allowance for credit losses on unfunded commitments	$ –	$ 129	$ 129
Retained earnings:			
Unallocated retained earnings	$ 38,264	$ 4,572	$ 42,836

Loans and Allowance for Credit Losses

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

Nonaccrual Loans

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

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

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

Accrued Interest Receivable

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral Dependent Loans

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

Allowance for Credit Losses

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

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

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

Methodology for Allowance for Credit Losses on Loans

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

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

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

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

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

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

The Association's macroeconomic forecast includes a weighted selection of the Moody's baseline, upside 10th percent and downside 90th 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	$ 326,782	$ 314,661
Production and intermediate-term	178,525	182,922
Agribusiness:		
Loans to cooperatives	1,403	630
Processing and marketing	21,394	25,174
Farm-related business	14,014	13,297
Rural infrastructure:		
Communication	9,745	6,317
Power and water/waste disposal	5,647	464
Rural residential real estate	23,491	21,273
Other:		
International	139	305
Other (including Mission Related)	13,097	17,379
Total loans	$ 594,237	$ 582,422

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

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

September 30, 2023								
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,826	$ 4,190	$ –	$ –	$ –	$ 3,739	$ 1,826	$ 7,929
Production and intermediate-term	5,150	(2)	170	–	–	2,211	5,320	2,209
Agribusiness	20,081	–	1,689	3,377	–	250	21,770	3,627
Rural infrastructure	15,423	–	–	–	–	–	15,423	–
Other	140	–	–	–	12,927	–	13,067	–
Total	$ 42,620	$ 4,188	$ 1,859	$ 3,377	$ 12,927	$ 6,200	$ 57,406	$ 13,765

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	$ 1,890	$ 4,190	$ –	$ –	$ –	$ 3,750	$ 1,890	$ 7,940
Production and intermediate-term	4,410	(2)	220	–	–	1,970	4,630	1,968
Agribusiness	17,660	–	–	–	–	–	17,660	–
Rural infrastructure	6,813	–	–	–	–	–	6,813	–
Other	305	–	–	–	17,075	–	17,380	–
Total	$ 31,078	$ 4,188	$ 220	$ –	$ 17,075	$ 5,720	$ 48,373	$ 9,908

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	96.79%	97.26%
OAEM	1.24	0.71
Substandard/doubtful/loss	1.97	2.03
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	95.15%	93.98%
OAEM	2.79	0.96
Substandard/doubtful/loss	2.06	5.06
	100.00%	100.00%
Agribusiness:		
Acceptable	90.17%	94.49%
OAEM	4.29	–
Substandard/doubtful/loss	5.54	5.51
	100.00%	100.00%
Rural infrastructure:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	97.49%	98.28%
OAEM	1.74	0.70
Substandard/doubtful/loss	0.77	1.02
	100.00%	100.00%
Other:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	96.07%	96.19%
OAEM	1.86	0.71
Substandard/doubtful/loss	2.07	3.10
	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 $9,066 and $6,829 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	$ 1,860	$ 853	$ 2,713	$ 324,069	$ 326,782	$ –
Production and intermediate-term	369	227	596	177,929	178,525	–
Agribusiness	46	982	1,028	35,783	36,811	–
Rural infrastructure	–	–	–	15,392	15,392	–
Rural residential real estate	207	–	207	23,284	23,491	–
Other	166	–	166	13,070	13,236	–
Total	$ 2,648	$ 2,062	$ 4,710	$ 589,527	$ 594,237	$ –

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	$ 791	$ 1,074	$ 1,865	$ 316,064	$ 317,929	$ –
Production and intermediate-term	311	3,091	3,402	182,532	185,934	–
Agribusiness	–	982	982	38,297	39,279	–
Rural infrastructure	–	–	–	6,792	6,792	–
Rural residential real estate	169	185	354	20,992	21,346	–
Other	898	1,186	2,084	15,887	17,971	1,186
Total	$ 2,169	$ 6,518	$ 8,687	$ 580,564	$ 589,251	$ 1,186

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

	September 30, 2023
Nonaccrual loans:	
Real estate mortgage	$ 2,277
Production and intermediate-term	532
Agribusiness	1,063
Rural residential real estate	7
Total	$ 3,879
Accruing loans 90 days or more past due:	
Other	$ –
Total	$ –
Total nonperforming loans	$ 3,879
Other property owned	1,295
Total nonperforming assets	$ 5,174
Nonaccrual loans as a percentage of total loans	0.65%
Nonperforming assets as a percentage of total loans and other property owned	0.87%
Nonperforming assets as a percentage of capital	4.05%

	December 31, 2022*
Nonaccrual loans:	
Real estate mortgage	$ 1,599
Production and intermediate-term	3,329
Agribusiness	1,116
Rural residential real estate	185
Total	$ 6,229
Accruing restructured loans:	
Real estate mortgage	$ 3,540
Rural residential real estate	6
Total	$ 3,546
Accruing loans 90 days or more past due:	
Other	$ 1,186
Total	$ 1,186
Total nonperforming loans	$ 10,961
Other property owned	–
Total nonperforming assets	$ 10,961
Nonaccrual loans as a percentage of total loans	1.07%
Nonperforming assets as a percentage of total loans and other property owned	1.88%
Nonperforming assets as a percentage of capital	9.40%

**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	$ –	$ 2,277	$ 2,277	$ 89	$ 230
Production and intermediate-term	388	144	532	21	54
Agribusiness	1,121	(58)	1,063	42	108
Rural residential real estate	–	7	7	–	1
Total	$ 1,509	$ 2,370	$ 3,879	$ 152	$ 393

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	$ 707	$ 1,511	$ 138	$ 9	$ 47	$ –	$ 2,412
Charge-offs	(22)	(834)	–	–	–	–	(856)
Recoveries	2	60	–	–	–	–	62
Provision for loan losses	152	(61)	213	1	10	–	315
Balance at September 30, 2023	$ 839	$ 676	$ 351	$ 10	$ 57	$ –	$ 1,933
Allowance for Unfunded Commitments:							
Balance at June 30, 2023	$ 36	$ 93	$ 22	$ 7	$ 3	$ –	$ 161
Provision for unfunded commitments	3	55	97	5	7	–	167
Balance at September 30, 2023	$ 39	$ 148	$ 119	$ 12	$ 10	$ –	$ 328
Total allowance for credit losses	$ 878	$ 824	$ 470	$ 22	$ 67	$ –	$ 2,261
Allowance for Loan Losses:							
Balance at December 31, 2022	$ 2,828	$ 3,448	$ 510	$ 12	$ 101	$ 2	$ 6,901
Cumulative effect of a change in accounting principle	(2,152)	(2,090)	(388)	(10)	(60)	(1)	(4,701)
Balance at January 1, 2023	$ 676	$ 1,358	$ 122	$ 2	$ 41	$ 1	$ 2,200
Charge-offs	(22)	(856)	–	–	–	–	(878)
Recoveries	8	100	–	–	–	–	108
Provision for loan losses	177	74	229	8	16	(1)	503
Balance at September 30, 2023	$ 839	$ 676	$ 351	$ 10	$ 57	$ –	$ 1,933
Allowance for Unfunded Commitments:							
Balance at December 31, 2022	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Cumulative effect of a change in accounting principle	18	73	29	5	4	–	129
Balance at January 1, 2023	$ 18	$ 73	$ 29	$ 5	$ 4	$ –	$ 129
Provision for unfunded commitments	21	75	90	7	6	–	199
Balance at September 30, 2023	$ 39	$ 148	$ 119	$ 12	$ 10	$ –	$ 328
Total allowance for credit losses	$ 878	$ 824	$ 470	$ 22	$ 67	$ –	$ 2,261
Allowance for Loan Losses*:							
Balance at June 30, 2022	$ 2,876	$ 3,635	$ 245	$ –	$ 140	$ –	$ 6,896
Charge-offs	–	(28)	–	–	–	–	(28)
Recoveries	2	6	–	–	–	–	8
Provision for loan losses	(129)	(364)	161	4	(20)	–	(348)
Balance at September 30, 2022	$ 2,749	$ 3,249	$ 406	$ 4	$ 120	$ –	$ 6,528
Balance at December 31, 2021	$ 2,876	$ 3,665	$ 245	$ –	$ 140	$ –	$ 6,926
Charge-offs	(1)	(30)	–	–	–	–	(31)
Recoveries	17	48	–	–	–	–	65
Provision for loan losses	(143)	(434)	161	4	(20)	–	(432)
Balance at September 30, 2022	$ 2,749	$ 3,249	$ 406	$ 4	$ 120	$ –	$ 6,528

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.

Loans held for sale were $8 and $0 at September 30, 2023 and December 31, 2022, respectively. Such loans are carried at the lower of cost or fair value.

Troubled Debt Restructurings

Prior to the adoption of updated FASB guidance on loan modifications on January 1, 2023, a restructuring of a loan constituted a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program, were borrower-specific, and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a TDR, these loans were included within impaired loans under nonaccrual or accruing restructured loans. There were no new TDRs that occurred during the three and nine months ended September 30, 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 and nine months ended September 30, 2022. Payment default is defined as a payment that was thirty days or more past due.

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

	December 31, 2022*	
	Total TDRs	**Nonaccrual TDRs**
Real estate mortgage	$ 3,590	$ 50
Production and intermediate-term	635	635
Rural residential real estate	6	–
Total loans	$ 4,231	$ 685
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 1.77 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 $453 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 of the Association's financial instruments within the fair value hierarchy are as follows:

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

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

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

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

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

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

	September 30, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ –	$ –	$ –	$ –
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ 1,241	$ 1,241
Other property owned	$ –	$ –	$ 1,817	$ 1,817

	December 31, 2022			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ –	$ –	$ –	$ –
Nonrecurring assets				
Impaired loans*	$ –	$ –	$ 1,236	$ 1,236
Other property owned	$ –	$ –	$ –	$ –

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

Valuation Techniques

Assets held in trust funds

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

Impaired loans

Fair values of impaired 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 6 — 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	$ 129	$ 175	$ 354	$ 526
401(k)	102	107	312	314
Other postretirement benefits	60	53	180	165
Total	$ 291	$ 335	$ 846	$ 1,005

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 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 $2.5 million to $9.3 million.