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*River Valley AgCredit, ACA*

# FIRST QUARTER 2023

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## CERTIFICATION

The undersigned certify that we have reviewed the March 31, 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.

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

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

/s/ Beth Barkley  
Chief Financial Officer  
of River Valley AgCredit, ACA

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

May 9, 2023

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*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 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. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## FUTURE OF LIBOR

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

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 outstanding variable-rate financial instruments tied to LIBOR at March 31, 2023:

<i>(dollars in thousands)</i>	<b>Due in 2023 (On or Before June 30)</b>	<b>Due in 2023 (On or Before June 30)</b>	<b>Total</b>	<b>% Due after June 30, 2023 to balance sheet line item</b>	<b>% Due after June 30, 2023 without fallback provisions</b>
Loans	\$ —	\$ 812	\$ 812	0.144%	—%
Total Assets	\$ —	\$ 812	\$ 812	0.138%	—%
Direct Note	\$ —	\$ 637	\$ 637	0.142%	—%
Total Liabilities	\$ —	\$ 637	\$ 637	0.138%	—%

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. At March 31, 2023, zero percent of total loans maturing after June 30, 2023 do not contain fallback provisions.

## 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.

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The gross loan volume of the Association as of March 31, 2023, was \$564,917 as compared to \$582,422 at December 31, 2022, a decrease of \$17,505. Net loans outstanding at March 31, 2023, were \$562,737 as compared to \$575,521 at December 31, 2022. Net loans accounted for 95.99 percent of total assets at March 31, 2023, as compared to 95.75 percent of total assets at December 31, 2022. The decrease in gross and net loan volume during the reporting period is primarily attributable to seasonal loan paydowns.

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 \$5,285 at March 31, 2023. This decrease is primarily the result of normal nonaccrual collections.

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 \$0 in OPO as of March 31, 2023, which was no change from December 31, 2022.

## RESULTS OF OPERATIONS

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

Net income for the three months ended March 31, 2023, totaled \$2,331 as compared to \$2,252 for the same period in 2022, an increase of \$79. This increase is attributed primarily to year over year growth in loan volume. Net interest income increased \$264 for the three months ended March 31, 2023, as compared to the same period in 2022 due to year over year loan growth.

Noninterest income for the three months ended March 31, 2023, totaled \$1,119 as compared to \$1,170 for the same period in 2022, a decrease of \$51. This is attributed to decreases of \$124 in gains on sale of rural home loans in Farm Credit System, \$15 in patronage refunds from other farm credit institutions, and \$8 in financially related services. These were offset by increases of \$95 in fee income and \$1 in other noninterest income.

Noninterest expense for the three months ended March 31, 2023, totaled \$3,134 as compared to \$3,066 for the same period in 2022, an increase of \$68. This increase in expense is attributed to a \$48 increase in salary and employee benefits, \$36 increase in insurance premiums, \$7 increase in occupancy and equipment and \$3 increase in other operating expenses. These were offset by a \$3 decrease in other operating expenses and a \$2 decrease in data processing.

## 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 March 31, 2023, was \$447,478 compared to \$465,253 at December 31, 2022.

## CAPITAL RESOURCES

Total members' equity at March 31, 2023, increased to \$123,295 from the December 31, 2022, total of \$116,595. The increase is primarily attributed to earnings retained 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 \$4,875 on March 31, 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 March 31, 2023
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.500%	7.00%	18.92%
Tier 1 Capital	6.0%	2.500%	8.50%	18.92%
Total Capital	8.0%	2.500%	10.50%	19.60%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.51%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	19.10%
UREE Leverage Ratio	1.5%	0.0%	1.5%	18.78%

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 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.

## 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.

**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](http://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](http://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

<i>(dollars in thousands)</i>	March 31, 2023 <i>(unaudited)</i>	December 31, 2022 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 623	\$ 360
Loans	564,917	582,422
Allowance for loan losses	(2,180)	(6,901)
Net loans	562,737	575,521
Accrued interest receivable	7,329	6,829
Equity investments in other Farm Credit institutions	7,249	7,249
Premises and equipment, net	7,620	7,667
Accounts receivable	512	3,278
Other assets	165	161
Total assets	\$ 586,235	\$ 601,065
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 447,478	\$ 465,253
Accrued interest payable	1,297	1,277
Patronage refunds payable	773	3,950
Accounts payable	1,201	1,505
Advanced conditional payments	5,872	3,962
Other liabilities	6,319	8,523
Total liabilities	462,940	484,470
Commitments and contingencies (Note 7)		
<b>Members' Equity</b>		
Capital stock and participation certificates	4,875	4,881
Additional paid-in-capital	15,817	15,817
Retained earnings		
Allocated	57,456	57,633
Unallocated	45,147	38,264
Total members' equity	123,295	116,595
Total liabilities and members' equity	\$ 586,235	\$ 601,065

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

# River Valley AgCredit, ACA

## Consolidated Statements of Comprehensive Income

(unaudited)

	For the Three Months Ended March 31,	
	2023	2022
<i>(dollars in thousands)</i>		
<b>Interest Income</b>		
Loans	\$ 8,137	\$ 6,412
Other	1	2
Total interest income	<u>8,138</u>	<u>6,414</u>
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	3,752	2,314
Other	48	26
Total interest expense	<u>3,800</u>	<u>2,340</u>
Net interest income	4,338	4,074
Provision for (reversal of) allowance for credit losses	(17)	(46)
Net interest income after provision for (reversal of) allowance for credit losses	<u>4,355</u>	<u>4,120</u>
<b>Noninterest Income</b>		
Loan fees	242	147
Fees for financially related services	10	18
Patronage refunds from other Farm Credit institutions	850	865
Gains (losses) on sales of rural home loans, net	15	139
Other noninterest income	2	1
Total noninterest income	<u>1,119</u>	<u>1,170</u>
<b>Noninterest Expense</b>		
Salaries and employee benefits	2,153	2,105
Occupancy and equipment	158	151
Insurance Fund premiums	181	145
Purchased services	107	104
Data processing	53	55
Other operating expenses	502	505
(Gains) losses on other property owned, net	(20)	1
Total noninterest expense	<u>3,134</u>	<u>3,066</u>
Income before income taxes	2,340	2,224
Provision (benefit) for income taxes	9	(28)
<b>Net income</b>	<u>\$ 2,331</u>	<u>\$ 2,252</u>
Other comprehensive income	<u>—</u>	<u>—</u>
<b>Comprehensive income</b>	<u>\$ 2,331</u>	<u>\$ 2,252</u>

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

**River Valley AgCredit, ACA**

# **Consolidated Statements of Changes in Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	<b>Capital Stock and Participation Certificates</b>	<b>Additional Paid-in-Capital</b>	<b>Retained Earnings</b>		<b>Total Members' Equity</b>
			<b>Allocated</b>	<b>Unallocated</b>	
Balance at December 31, 2021	\$ 4,831	\$ 15,817	\$ 49,474	\$ 39,072	\$ 109,194
Comprehensive income				2,252	2,252
Capital stock/participation certificates issued/(retired), net	12				12
Patronage distribution adjustment			1,820	(2,130)	(310)
Balance at March 31, 2022	\$ 4,843	\$ 15,817	\$ 51,294	\$ 39,194	\$ 111,148
<b>Balance at December 31, 2022</b>	<b>\$ 4,881</b>	<b>\$ 15,817</b>	<b>\$ 57,633</b>	<b>\$ 38,264</b>	<b>\$ 116,595</b>
<b>Cumulative effect of change in accounting principle</b>				<b>4,572</b>	<b>4,572</b>
<b>Comprehensive income</b>				<b>2,331</b>	<b>2,331</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>(6)</b>				<b>(6)</b>
<b>Patronage distribution adjustment</b>			<b>(177)</b>	<b>(20)</b>	<b>(197)</b>
<b>Balance at March 31, 2023</b>	<b>\$ 4,875</b>	<b>\$ 15,817</b>	<b>\$ 57,456</b>	<b>\$ 45,147</b>	<b>\$ 123,295</b>

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

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***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). 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	\$ 6,901	\$ (4,701)	\$ 2,200
<b>Liabilities:</b>			
Allowance for credit losses on unfunded commitments	\$ —	\$ 129	\$ 129
<b>Retained earnings:</b>			
Unallocated retained earnings	\$ 38,264	\$ 4,572	\$ 42,836

### *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.

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### *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, 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.

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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	\$ 316,725	\$ 314,661
Production and intermediate-term	154,827	182,922
Agribusiness:		
Loans to cooperatives	1,440	630
Processing and marketing	28,249	25,174
Farm-related business	14,861	13,297
Rural infrastructure:		
Communication	6,517	6,317
Power and water/waste disposal	3,888	464
Rural residential real estate	22,358	21,273
Other:		
International	449	305
Other (including Mission Related)	15,603	17,379
Total loans	<u>\$ 564,917</u>	<u>\$ 582,422</u>

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	\$ 1,869	\$ 4,190	\$ —	\$ —	\$ —	\$ 3,892	\$ 1,869	\$ 8,082
Production and intermediate-term	4,884	(2)	204	—	—	1,832	5,088	1,830
Agribusiness	19,522	—	2,235	6,144	—	—	21,757	6,144
Rural infrastructure	10,436	—	—	—	—	—	10,436	—
Other	450	—	—	—	15,359	—	15,809	—
Total	<u>\$ 37,161</u>	<u>\$ 4,188</u>	<u>\$ 2,439</u>	<u>\$ 6,144</u>	<u>\$ 15,359</u>	<u>\$ 5,724</u>	<u>\$ 54,959</u>	<u>\$ 16,056</u>

### 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	<u>\$ 31,078</u>	<u>\$ 4,188</u>	<u>\$ 220</u>	<u>\$ —</u>	<u>\$ 17,075</u>	<u>\$ 5,720</u>	<u>\$ 48,373</u>	<u>\$ 9,908</u>

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	97.39%	97.26%
OAEM	0.61	0.71
Substandard/doubtful/loss	2.00	2.03
	100.00%	100.00%
<b>Production and intermediate-term:</b>		
Acceptable	93.51%	93.98%
OAEM	0.94	0.96
Substandard/doubtful/loss	5.55	5.06
	100.00%	100.00%
<b>Agribusiness:</b>		
Acceptable	95.20%	94.49%
OAEM	—	—
Substandard/doubtful/loss	4.80	5.51
	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	98.38%	98.28%
OAEM	0.64	0.70
Substandard/doubtful/loss	0.98	1.02
	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	96.32%	96.19%
OAEM	0.62	0.71
Substandard/doubtful/loss	3.06	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 \$7,329 and \$6,829 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 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	\$ 618	\$ 991	\$ 1,609	\$ 315,116	\$ 316,725	\$ —
Production and intermediate-term	292	2,233	2,525	152,302	154,827	—
Agribusiness	59	982	1,041	43,509	44,550	—
Rural infrastructure	—	—	—	10,405	10,405	—
Rural residential real estate	237	188	425	21,933	22,358	—
Other	1,305	251	1,556	14,496	16,052	251
Total	\$ 2,511	\$ 4,645	7,156	\$ 557,761	\$ 564,917	\$ 251

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:

	March 31, 2023
<b>Nonaccrual loans:</b>	
Real estate mortgage	\$ 1,582
Production and intermediate-term	2,399
Agribusiness	1,116
Rural residential real estate	188
Total	<u>\$ 5,285</u>
<b>Accruing loans 90 days or more past due:</b>	
Other	\$ 251
Total	<u>\$ 251</u>
Total nonperforming loans	\$ 5,536
Other property owned	–
Total nonperforming assets	<u>\$ 5,536</u>
Nonaccrual loans as a percentage of total loans	0.94%
Nonperforming assets as a percentage of total loans and other property owned	0.98%
Nonperforming assets as a percentage of capital	<u>4.49%</u>
	<b>December 31, 2022*</b>
<b>Nonaccrual loans:</b>	
Real estate mortgage	\$ 1,599
Production and intermediate-term	3,329
Agribusiness	1,116
Rural residential real estate	185
Total	<u>\$ 6,229</u>
<b>Accruing restructured loans:</b>	
Real estate mortgage	\$ 3,540
Rural residential real estate	6
Total	<u>\$ 3,546</u>
<b>Accruing loans 90 days or more past due:</b>	
Other	\$ 1,186
Total	<u>\$ 1,186</u>
Total nonperforming loans	\$ 10,961
Other property owned	–
Total nonperforming assets	<u>\$ 10,961</u>
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	<u>9.40%</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	\$ —	\$ 1,582	\$ 1,582	\$ 23
Production and intermediate-term	1,553	846	2,399	34
Agribusiness	—	1,116	1,116	16
Rural residential real estate	—	188	188	3
Total	\$ 1,553	\$ 3,732	\$ 5,285	\$ 76

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	\$ 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	—	—	—	—	—	—	—
Recoveries	3	22	—	—	—	—	25
Provision for loan losses	3	(66)	14	2	2	—	(45)
Balance at March 31, 2023	\$ 682	\$ 1,314	\$ 136	\$ 4	\$ 43	\$ 1	\$ 2,180
<b>Allowance for Unfunded Commitments:</b>							
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	8	(2)	2	(1)	—	28
Balance at March 31, 2023	\$ 39	\$ 81	\$ 27	\$ 7	\$ 3	\$ —	\$ 157
<b>Total allowance for credit losses</b>	\$ 721	\$ 1,395	\$ 163	\$ 11	\$ 46	\$ 1	\$ 2,337
<b>Allowance for Loan Losses*:</b>							
Balance at December 31, 2021	\$ 2,876	\$ 3,665	\$ 245	\$ —	\$ 140	\$ —	\$ 6,926
Charge-offs	(1)	—	—	—	—	—	(1)
Recoveries	3	8	—	—	—	—	11
Provision for loan losses	(2)	(44)	—	—	—	—	(46)
Balance at March 31, 2022	\$ 2,876	\$ 3,629	\$ 245	\$ —	\$ 140	\$ —	\$ 6,890

\*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.

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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	\$ 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 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 investments of \$481 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.

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	\$ —	\$ —	\$ 723	\$ 723		\$ 723
Other property owned	\$ —	\$ —	\$ —	\$ —		\$ —

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*	\$ —	\$ —	\$ 1,236	\$ 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

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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:

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Pension	\$ 131	\$ 194
401(k)	106	103
Other postretirement benefits	60	54
Total	<u>\$ 297</u>	<u>\$ 351</u>

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 there were none requiring disclosure through May 9, 2023, which was the date the financial statements were issued.