SOUTHERN AGCREDIT

Financial Solutions for Agriculture

Stockholders' Quarterly Financial Report

For the Quarter Ended March 31, 2023

REPORT OF MANAGEMENT

The consolidated financial statements of Southern AgCredit, ACA (association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The board of directors has overall responsibility for the association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations.

The undersigned certify that we have reviewed this report, that it has been prepared 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.

Phillip D. Morgan, CPA
Chief Executive Officer
May 10, 2023

Bryan "Scott" Bell
Chairman, Board of Directors
May 10, 2023

Britny B. Hester, CPA
Chief Financial Officer
May 10, 2023

SOUTHERN AGCREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Southern AgCredit, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended March 31, 2023. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2022 Annual Report to Stockholders.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the association's audit committee.

Significant Events:

In December 2022, the association's board of directors declared a patronage in the amount of $23,635,297 to stockholders, including $11,883,219 to be paid in cash, and $11,752,078 in the form of non-qualified allocated equities on behalf of the individual stockholders and retained by the association. Non-qualified allocated equities are not taxable to the stockholder. The cash patronage was disbursed to the association stockholders in February 2023. The 2022 cash patronage is a record return of earnings to the stockholders of the association and represents on average a 1 percent reduction in borrowers' loan interest rate.

In an effort to improve the association's operating efficiency and customer service capacity, construction was completed on a new office building in Ridgeland, Mississippi, that houses the Ridgeland branch and administrative offices. The building was occupied in early March. In addition, a lot was purchased in Brookhaven with plans to construct a new office building in order to meet customer financing needs. The board and management of the association believe that the new headquarters building and construction of a new Brookhaven building will improve upon the association's continuing commitment to provide its borrowers with the highest quality of customer service.

The association continues to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio:

Total loans outstanding at March 31, 2023, including nonaccrual loans and sales contracts, were $1,388,961,897 compared to $1,377,303,644 at December 31, 2022, reflecting an increase of 0.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.1 percent at March 31, 2023 and December 31, 2022.

The association recorded no recoveries or charge-offs for the quarter ended March 31, 2023, or for the same period in 2022. The association's allowance for loan losses was 0.2 percent of total loans outstanding as of March 31, 2023, compared to 0.1 percent at December 31, 2022.

Agribusiness Loan Program

The association utilizes the Mississippi Development Authority's Agribusiness Enterprise Loan Program (ABE) to lower the cost of financing for its borrowers. The ABE loan program is designed to provide a percentage of low-cost state financing that is combined with private financial lending institutions' loan proceeds to encourage loans to the agribusiness industry in the state.

The association guarantees payment of the borrower's ABE loan to the Mississippi Development Authority (MDA) and, therefore, the amount of ABE loans outstanding and due to MDA is included in "Loans" on the consolidated balance sheet with an offsetting liability at "Guaranteed obligations to government entities." ABE loans totaled $12,128,042 and $12,531,490 as of March 31, 2023 and December 31, 2022, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, and other property owned. The following table illustrates the association's components and trends of high-risk assets.

	March 31, 2023		December 31, 2022	
	Amount	**%**	Amount	%
Nonaccrual	**$ 1,876,668**	**100.0%**	$ 666,741	100.0%
Total	**$ 1,876,668**	**100.0%**	$ 666,741	100.0%

The balance of nonaccrual volume as of March 31, 2023 is primarily secured by real estate and agribusiness with a total specific allowance of $274,622 related to two loans. The increase in nonaccrual volume since the prior year end is primarily due to the downgrade of two capital market participation loans to nonaccrual status during the period.

Investments:

During 2010, the association exchanged $35,192,440 of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transactions since the loans were at a market rate, guaranteed by Farmer Mac and the servicing fee adequately compensates the association for the cost to service the loans. These AMBS are included in the association's Consolidated Balance Sheet as held-to-maturity investments at an amortized cost balance of $1,187,217 at March 31, 2023. The association continues to service the loans included in those transactions.

Results of Operations:

The association had net income of $6,454,889 for the three months ended March 31, 2023, as compared to net income of $5,921,733 for the same period in 2022, reflecting an increase of 9 percent. Net interest income was $8,752,225 for the three months ended March 31, 2023, compared to $7,849,635 for the same period in 2022, reflecting an increase of 11.5 percent.

	Three Months Ended			
	March 31, 2023		March 31, 2022	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 1,380,621,104**	**$ 17,754,148**	$ 1,281,813,280	$ 13,007,794
Investments	**1,214,140**	**17,267**	2,306,360	24,308
Total interest-earning assets	**1,381,835,244**	**17,771,415**	1,284,119,640	13,032,102
Interest-bearing liabilities	**1,206,658,332**	**9,019,190**	1,099,413,644	5,182,467
Impact of capital	**$ 175,176,912**		$ 184,705,996	
Net interest income		**$ 8,752,225**		$ 7,849,635

	2023 Average Yield	2022 Average Yield
Yield on loans	**5.22%**	4.12%
Yield on investments	**5.77%**	4.27%
Total yield on interest-earning assets	**5.22%**	4.12%
Cost of interest-bearing liabilities	**3.03%**	1.91%
Interest rate spread	**2.19%**	2.21%
Net interest income as a percentage of average earning assets	**2.57%**	2.48%

	Three months ended: March 31, 2023 vs. March 31, 2022		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	$ 1,002,707	$ 3,743,647	$ 4,746,354
Interest income - investments	(11,512)	4,471	(7,041)
Total interest income	991,196	3,748,117	4,739,313
Interest expense	505,528	3,331,195	3,836,723
Net interest income	$ 485,668	$ 416,922	$ 902,590

Interest income for the three months ended March 31, 2023, increased by $4,739,313, or 36.4 percent respectively, from the same period of 2022, primarily due to an increase in yields on interest earning assets due to the recent rate hikes and increase in average loan volume. Interest expense for the three months ended March 31,2023, increased by $3,836,723, or 74.0 percent, from the same period of 2022 due to an increase in average debt volume with an increase in cost of funds. Average loan volume for the first quarter of 2023 was $1,380,621,104, compared to $1,281,813,280 in the same period of 2022. The average net interest rate spread on the loan portfolio for the first quarter of 2023 was 2.19 percent, compared to 2.21 percent in the first quarter of 2022.

The association's return on average assets for the three months ended March 31, 2023, was 1.82 percent compared to 1.81 percent for the same period in 2022. The association's return on average equity for the three months ended March 31, 2023, was 12.41 percent, compared to 12.09 percent for the same period in 2022.

Liquidity and Funding Sources:

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

	March 31, 2023	December 31, 2022
Note payable to the bank	$ 1,208,196,101	$ 1,186,601,640
Accrued interest on note payable	3,216,365	2,949,902
Total	$ 1,211,412,466	$ 1,189,551,542

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $1,208,196,101 as of March 31, 2023, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 3.13 percent at March 31, 2023. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2022, is due to increased borrowing needs at the association. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $163,785,695 at March 31, 2023. The maximum amount the association may borrow from the bank as of March 31, 2023, was $1,385,438,767 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

Capital Resources:

The association's capital position increased by $5,326,685 at March 31, 2023, compared to December 31, 2022. The association's debt as a percentage of members' equity was 5.75:1 as of March 31, 2023, compared to 5.86:1 as of December 31, 2022.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2023, the association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

Refer to Note 1 – "Organization and Significant Accounting Policies" in this quarterly report for disclosures of recent accounting pronouncements which may impact the association's consolidated financial position and results of operations and for critical accounting policies.

Relationship With the Farm Credit Bank of Texas:

The association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2022 Annual Report of Southern AgCredit, ACA more fully describe the association's relationship with the bank.

The annual and quarterly stockholder reports of the bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the bank are also available on its website at *www.farmcreditbank.com.*

The association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Southern AgCredit, ACA, 306 Commerce Center Drive, Ridgeland, MS 39157 or calling 601-499-2820. The annual and quarterly stockholder reports for the association are also available on its website at *www.southernagcredit.com.* Copies of the association's quarterly stockholder reports can also be requested by e-mailing *dlsouthernagcreditadmin@farmcreditbank.com*..

SOUTHERN AGCREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	March 31, 2023 (unaudited)	December 31, 2022
ASSETS		
Cash	**$ 18,428**	$ 28,460
Investments	**1,187,217**	1,224,024
Loans	**1,388,961,897**	1,377,303,644
Less: allowance for credit losses	**3,006,096**	1,636,968
Net loans	**1,385,955,801**	1,375,666,676
Accrued interest receivable		
Loans	**12,476,651**	11,789,157
Investments	**30,508**	21,982
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**22,754,470**	22,754,470
Other	**2,753,372**	1,258,818
Premises and equipment, net	**18,636,880**	17,842,783
Other assets	**1,475,506**	906,560
Total assets	**$ 1,445,288,833**	$ 1,431,492,930
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 1,208,196,101**	$ 1,186,601,640
Guaranteed obligations to government entities	**12,128,042**	12,531,490
Advance conditional payments	**74,846**	99,292
Accrued interest payable	**3,216,365**	2,949,902
Drafts outstanding	**2,267,206**	71,896
Patronage distributions payable	**-**	11,883,219
Other liabilities	**5,285,620**	8,561,523
Total liabilities	**1,231,168,180**	1,222,698,962
MEMBERS' EQUITY		
Capital stock and participation certificates	**5,237,975**	5,228,975
Additional paid-in capital	**10,238,891**	10,238,891
Unallocated retained earnings	**198,065,769**	192,737,743
Accumulated other comprehensive income	**578,018**	588,359
Total members' equity	**214,120,653**	208,793,968
Total liabilities and members' equity	**$ 1,445,288,833**	$ 1,431,492,930

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended March 31, 2023	Quarter Ended March 31, 2022
INTEREST INCOME		
Loans	**$ 17,754,148**	$ 13,007,794
Investments	**17,267**	24,308
Total interest income	**17,771,415**	13,032,102
INTEREST EXPENSE		
Note payable to the Farm Credit Bank of Texas	**9,011,258**	5,182,409
Advance conditional payments	**7,932**	58
Total interest expense	**9,019,190**	5,182,467
Net interest income	**8,752,225**	7,849,635
PROVISION FOR CREDIT LOSSES	**228,903**	31,601
Net interest income after provision for credit losses	**8,523,322**	7,818,034
NONINTEREST INCOME		
Income from the Farm Credit Bank of Texas:		
Patronage income	**2,080,379**	2,025,264
Loan fees	**95,670**	99,820
Financially related services income	**9,129**	366
Gain (loss) on other property owned, net	**(336)**	(2,975)
Gain (loss) on sale of premises and equipment, net	**68,314**	-
Other noninterest income	**9,129**	68,753
Total noninterest income	**2,262,285**	2,191,228
NONINTEREST EXPENSES		
Salaries and employee benefits	**2,028,983**	2,026,288
Occupancy and equipment	**446,681**	371,103
Insurance Fund premiums	**493,549**	387,990
Other components of net periodic postretirement benefit cost	**31,194**	34,149
Other noninterest expense	**1,330,311**	1,267,999
Total noninterest expenses	**4,330,718**	4,087,529
Income before income taxes	**6,454,889**	5,921,733
NET INCOME	**6,454,889**	5,921,733
Other comprehensive income:		
Change in postretirement benefit plans	**(10,341)**	(3,375)
Other comprehensive income, net of tax	**(10,341)**	(3,375)
COMPREHENSIVE INCOME	**$ 6,444,548**	$ 5,918,358

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2021	$ 5,030,515	$ 10,238,891	$ 180,692,595	$ (202,103)	$ 195,759,898
Comprehensive income			5,921,733	(3,375)	5,918,358
Capital stock/participation certificates and allocated retained earnings issued	233,805				233,805
Capital stock/participation certificates and allocated retained earnings retired	(183,810)				(183,810)
Balance at March 31, 2022	$ 5,080,510	$ 10,238,891	$ 186,614,328	$ (205,478)	$ 201,728,251
Balance at December 31, 2022	$ 5,228,975	$ 10,238,891	$ 192,737,743	$ 588,359	$ 208,793,968
Comprehensive income			6,454,889	(10,341)	6,444,548
Capital stock/participation certificates and allocated retained earnings issued	176,590				176,590
Capital stock/participation certificates and allocated retained earnings retired	(167,590)				(167,590)
Cumulative effect of change in accounting principle			(1,126,863)		(1,126,863)
Balance at March 31, 2023	**$ 5,237,975**	**$ 10,238,891**	**$ 198,065,769**	**$ 578,018**	**$ 214,120,653**

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

SOUTHERN AGCREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Southern AgCredit, ACA, including its wholly-owned subsidiaries, Southern AgCredit, PCA and Southern AgCredit, FLCA (collectively called "the association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Adams, Amite, Carroll, Claiborne, Clarke, Copiah, Covington, Forrest, Franklin, George, Greene, Grenada, Hancock, Harrison, Hinds, Holmes, Humphreys, Issaquena, Jackson, Jasper, Jefferson, Jefferson Davis, Jones, Kemper, Lamar, Lauderdale, Lawrence, Leake, Leflore, Lincoln, Madison, Marion, Montgomery, Neshoba, Newton, Pearl River, Perry, Pike, Rankin, Scott, Sharkey, Simpson, Smith, Stone, Walthall, Warren, Washington, Wayne, Wilkinson and Yazoo in the state of Mississippi, as well as the parishes of Bienville, Bossier, Caddo, Claiborne, DeSoto, Jackson, Lincoln, Ouachita (west of Ouachita River), Red River, Union and Webster in the state of Louisiana. In addition, the association is the single owner of Parkway Place Investments, LLC, which was organized for the purpose of holding and managing foreclosed property for which the assets, liabilities and results of operation have been consolidated in the association's financial statements. The association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2022, as contained in the 2022 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2022, as contained in the 2022 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2022. Descriptions of the significant accounting policies are included in the 2022 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended March 31, 2023, are not necessarily indicative of the results to be expected for the year ended December 31, 2023. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

Recently Adopted Accounting Pronouncements

The institution 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 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
Assets:			
Allowance for credit losses on loans	$ 1,636,968	$ 1,130,956	$ 2,767,924
Deferred tax assets	77,333	(23,119)	54,214
Liabilities:			
Allowance for credit losses on unfunded commitments	70,993	(4,092)	66,900
Retained earnings:			
Unallocated retained earnings, net of tax	76,992,877	(1,126,863)	75,866,013

Loans and Allowance for Credit Losses

Loans are generally carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. 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 not 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 allowance for loan losses (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 repayments 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 entity 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 Condensed Statement of Condition. 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 to be collected in full.

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 the Institution to measure the expected credit losses based on fair value of the collateral at the reporting date when the Institution 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 losses 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 allowance for credit losses (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 balance sheet 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 Condensed Statement of Condition.

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.

The entity 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 institution'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 ACL 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 loan type, commodity, credit quality rating, delinquency category or business segment or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by credit quality rating or delinquency buckets using historical life-of-loan analysis periods for loan types, and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

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

- lending policies and procedures;
- national, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
- the nature of the loan portfolio, including the terms of the loans;
- the experience, ability and depth of the lending management and other relevant staff;
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- the quality of the loan review and process;

- the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

The entity uses multiple scenarios over reasonable and supportable forecast period of two years. Subsequent to the forecast period, the institution reverts to long run historical loss experience beyond the two years on a straight-line basis over a one year reversion period to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts incorporate macroeconomic variables, including unemployment rates, real gross domestic product levels and corporate bond spreads, as well as net farm income and agricultural commodity prices. 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 and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which numerous factors are 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 allowances for loan losses, which include, but are 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 entity 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 Combined Statement of Condition. 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 institution and applying the loss factors used in the ACLL methodology to the results of the usage calculation.

NOTE 2 — INVESTMENTS:

The association may hold mission-related and other investments. The Farm Credit Administration approves mission-related programs and other mission-related investments. In January 2010, $35,192,440 of agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

March 31, 2023				
Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
$ 1,187,217	**$ -**	**$ 39,117**	**$ 1,148,100**	**5.71 %**

December 31, 2022				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
$ 1,224,024	$ -	$ 41,000	$ 1,183,024	5.55 %

NOTE 3 — LOANS AND ALLOWANCE FOR CREDIT LOSSES:

A summary of loans follows:

Loan Type	**March 31, 2023 Amount**	December 31, 2022 Amount
Production agriculture:		
Real estate mortgage	**$ 1,146,830,620**	$ 1,139,471,583
Production and intermediate-term	**124,791,338**	133,146,153
Agribusiness:		
Loans to cooperatives	**5,601,911**	6,728,364
Processing and marketing	**44,873,882**	43,720,726
Farm-related business	**9,302,714**	9,352,125
Communication	**24,107,983**	24,242,073
Energy	**19,811,018**	11,592,647
Water and waste water	**4,438,123**	4,414,660
Rural residential real estate	**2,599,630**	2,665,224
Agricultural export finance	**6,604,678**	1,970,089
Total	**$ 1,388,961,897**	$ 1,377,303,644

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2023:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 16,720,448	$ 874,112	$ 67,063	$ -	$ 16,787,511	$ 874,112
Production and intermediate-term	23,903,422	34,996,372	-	-	23,903,422	34,996,372
Agribusiness	59,451,234		-	-	59,451,234	-
Communication	24,107,983		-	-	24,107,983	-
Energy	19,811,018		-	-	19,811,018	-
Water and waste water	4,438,123		-	-	4,438,123	-
Agricultural export finance	6,604,678		-	-	6,604,678	-
Total	$155,036,906	$ 35,870,484	$ 67,063	$ -	$155,103,969	$ 35,870,484

The association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were $74,846 and $99,292 at March 31, 2023, and December 31, 2022, respectively.

Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit and unfunded loan commitments. The entity manages credit risk associated with the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its loan officers. The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85% of the original appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Loans other than real estate mortgage may be made on a secured or unsecured basis.

The entity uses a two-dimensional risk rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point probability of default rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is the probability that a borrower will experience a default during the life of the loan. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default occurs during the remaining life of the loan. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower or the loan is classified nonaccrual. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship. The institution reviews, at least on an annual basis, or when a credit action is taken the probability of default category.

Each of the probability of default categories carries a distinct percentage of default probability. The probability of default rate between one and nine of the acceptable categories is very narrow and would reflect almost no default to a minimal default percentage. The probability of default rate grows more rapidly as a loan moves from acceptable to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain. These categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type as of:

	March 31, 2023	December 31, 2022
Real estate mortgage		
Acceptable	**99.19** %	99.16 %
OAEM	**0.50**	0.52
Substandard/doubtful	**0.31**	0.32
	100.00	100.00
Production and intermediate term		
Acceptable	**99.92**	99.94
OAEM	**0.06**	0.06
Substandard/doubtful	**0.02**	-
	100.00	100.00
Loans to cooperatives		
Acceptable	**100.00**	100.00
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.00	100.00
Processing and marketing		
Acceptable	**97.10**	96.98
OAEM	**-**	-
Substandard/doubtful	**2.90**	3.02
	100.00	100.00
Farm-related business		
Acceptable	**100.00**	100.00
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.00	100.00
Communication		
Acceptable	**100.00**	100.00
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.00	100.00
Energy		
Acceptable	**100.00**	100.00
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.00	100.00
Water and waste water		
Acceptable	**100.00**	100.00
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.00	100.00
Rural residential real estate		
Acceptable	**100.00**	100.00
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.00	100.00
Agricultural export finance		
Acceptable	**100.00**	100.00
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.00	100.00
Total loans		
Acceptable	**99.23**	99.20
OAEM	**0.42**	0.44
Substandard/doubtful	**0.35**	0.36
	100.00 %	100.00 %

Accrued interest receivable on loans of $12,476,651 and $11,789,157 at March 31, 2023 and December 31, 2022, respectively, is reported separately in the Balance Sheet, but is included along with the amortized cost of loans in the table above. The association did not write off any accrued interest receivable for the three months ended March 31, 2023 and 2022.

The following table reflects nonperforming assets, which consist of nonaccrual loans, 90 days past due and accruing, and other property owned and related credit quality statistics:

	March 31, 2023	December 31, 2022
Nonaccrual loans:		
Real estate mortgage	**$ 571,255**	$ 666,741
Agribusiness	**1,305,413**	-
Total nonaccrual loans	**1,876,668**	666,741
Total nonperforming assets	**$ 1,876,668**	$ 666,741
Nonaccrual loans as a percentage of total loans	**0.1%**	0.0%
Nonperforming assets as a percentage of total loans and other property owned	**0.1%**	0.0%
Nonperforming assets as a percentage of capital	**0.9%**	0.3%

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

	March 31, 2023			
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	Interest Income Recognized
Nonaccrual loans:				
Real estate mortgage	$ 71,157	$ 500,098	**$ 571,255**	$ -
Agribusiness	477,043	828,370	**1,305,413**	-
Total nonaccrual loans	**$ 548,200**	**$ 1,328,468**	**$ 1,876,668**	**$ -**

The following tables provide an age analysis of past due loans as of:

March 31, 2023	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	**$ 2,427,815**	**$ 34,689**	**$ 2,462,504**	**$ 1,144,368,116**	**$ 1,146,830,620**
Production and intermediate term	**148,987**	**-**	**148,987**	**124,642,351**	**124,791,338**
Loans to cooperatives	**-**	**-**	**-**	**5,601,911**	**5,601,911**
Processing and marketing	**-**	**-**	**-**	**44,873,882**	**44,873,882**
Farm-related business	**-**	**-**	**-**	**9,302,714**	**9,302,714**
Communication	**-**	**-**	**-**	**24,107,983**	**24,107,983**
Energy	**-**	**-**	**-**	**19,811,018**	**19,811,018**
Water and waste water	**-**	**-**	**-**	**4,438,123**	**4,438,123**
Rural residential real estate	**-**	**-**	**-**	**2,599,630**	**2,599,630**
Agricultural export finance	**-**	**-**	**-**	**6,604,678**	**6,604,678**
Total	**$ 2,576,802**	**$ 34,689**	**$ 2,611,491**	**$ 1,386,350,406**	**$ 1,388,961,897**

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

December 31, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 1,841,392	$ 38,946	$ 1,880,338	$ 1,147,437,845	$ 1,149,318,183
Production and intermediate term	63,255	-	63,255	134,477,301	134,540,556
Loans to cooperatives	-	-	-	6,739,978	6,739,978
Processing and marketing	-	-	-	43,893,050	43,893,050
Farm-related business	-	-	-	9,416,370	9,416,370
Communication	-	-	-	24,343,540	24,343,540
Energy	-	-	-	11,753,514	11,753,514
Water and waste water	-	-	-	4,416,028	4,416,028
Rural residential real estate	-	-	-	2,673,851	2,673,851
Agricultural export finance	-	-	-	1,997,731	1,997,731
Total	$ 1,904,647	$ 38,946	$ 1,943,593	$ 1,387,149,208	$ 1,389,092,801

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The collateral dependent loans are primarily real estate mortgage and rural residential real estate loans.

Allowance for Credit Losses

The credit risk rating methodology is a key component of the Institution's allowance for credit losses evaluation and is generally incorporated into the association's loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established for each individual System Institution to manage credit exposure. The regulatory limit to a single borrower or lessee is 15% of the Institution's lending and leasing limit base but the System Institution's boards of directors have generally established more restrictive lending limits. This limit applies to associations with long-term and short- and intermediate-term lending authorities, and to the Banks' (other than CoBank) loan participations.

Effective January 1, 2023, the System adopted the CECL accounting guidance as described in Note 1. A summary of changes in the allowance for credit losses by portfolio segment are as follows:

	Real estate mortgage	Production and intermediate-term	Agribusiness	Communications	Energy and Water/Waste	Rural residential real estate	Agricultural Export Finance	Total
Allowance for Credit Losses:								
Balance at December 31, 2022	$ 1,285,439	$ 199,289	$ 127,379	$ 15,081	$ 4,643	$ 3,107	$ 2,030	$ 1,636,968
Cumulative effect of change in accounting principle	1,195,421	(106,323)	36,604	2,711	1,233	2,364	(1,054)	1,130,956
Balance at January 1, 2023	$ 2,480,859	$ 92,966	$ 163,983	$ 17,792	$ 5,877	$ 5,470	$ 976	$ 2,767,924
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for credit losses (loan loss reversal)	21,668	3,693	205,520	2,063	3,506	(436)	2,158	238,172
Balance at March 31, 2023	$ 2,502,527	$ 96,659	$ 369,504	$ 19,855	$ 9,382	$ 5,034	$ 3,135	$ 3,006,096
Allowance for Unfunded Commitments:								
Balance at December 31, 2022	$ 13,239	$ 31,024	$ 24,620	$ -	$ -	$ -	$ 2,109	$ 70,993
Cumulative effect of change in accounting principle	4,621	(18,729)	8,062		141		1,813	(4,092)
Balance at January 1, 2023	$ 17,860	$ 12,295	$ 32,682	$ -	$ 141	$ -	$ 3,922	$ 66,900
Provision for unfunded commitments	(1,355)	(2,676)	(3,176)		(7)		(2,056)	(9,270)
Balance at March 31, 2023	$ 16,505	$ 9,619	$ 29,507	$ -	$ 134	$ -	$ 1,866	$ 57,631
Total allowance for credit losses	**$ 2,519,032**	**$ 106,278**	**$ 399,010**	**$ 19,855**	**$ 9,516**	**$ 5,034**	**$ 5,001**	**$ 3,063,727**
Allowance for Credit Losses[1]:								
Balance at December 31, 2021	$ 1,278,016	$ 200,424	$ 141,102	$ 14,727	$ 3,207	$ 4,223	$ 1,287	$ 1,642,986
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses (loan loss reversal)	29,900	9,392	(8,999)	172	480	(483)	17	30,480
Balance at March 31, 2022	$ 1,307,916	$ 209,816	$ 132,103	$ 14,899	$ 3,687	$ 3,740	$ 1,304	$ 1,673,466
Balance at December 31, 2021	$ -	$ 21,900	$ 31,417	$ 220	$ 1,138	$ -	$ 756	$ 55,431
Provision for unfunded commitments		1,623	(537)	2	14		18	1,121
Balance at March 31, 2022	$ -	$ 23,523	$ 30,880	$ 222	$ 1,152	$ -	$ 774	$ 56,552
Total allowance for credit losses	$ 1,307,916	$ 233,339	$ 162,983	$ 15,122	$ 4,839	$ 3,740	$ 2,078	$ 1,730,017

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

The association did not grant any loan modifications to borrowers experiencing financial difficulty during the quarter.

Troubled Debt Restructurings

Prior to January 1, 2023, the adoption of updated FASB guidance on loan modifications, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, 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 and 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 troubled debt restructuring, these loans were included within our impaired loans under nonaccrual or accruing restructured loans. Prior to January 1, 2023 and the adoption of CECL, loans modified as Troubled Debt Restructurings (TDRs) in accrual status totaled $893,154, and loans modified as TDRs in nonaccrual status totaled $259,933.

NOTE 4 — CAPITAL:

The association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the association's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an association's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of March 31, 2023
Common equity tier 1 ratio	7.00%	13.54%
Tier 1 capital ratio	8.50%	13.54%
Total capital ratio	10.50%	13.73%
Permanent capital ratio	7.00%	13.56%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	13.14%
UREE leverage ratio	1.50%	8.34%

The details for the amounts used in the calculation of the regulatory capital ratios as of March 31, 2023:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**77,884,550**	**77,884,550**	**77,884,550**	**77,884,550**
Paid-in capital	**10,238,891**	**10,238,891**	**10,238,891**	**10,238,891**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**5,233,877**	**5,233,877**	**5,233,877**	**5,233,877**
Other required member purchased stock held <5 years				
Other required member purchased stock held ≥ 5 years but < 7 years				
Other required member purchased stock held ≥7 years				
Allocated equities:				
Allocated equities held <5 years				
Allocated equities held ≥5 years but < 7 years				
Allocated equities held ≥7	**62,452,680**	**62,452,680**	**62,452,680**	**62,452,680**
Nonqualified allocated equities not subject to retirement	**52,116,979**	**52,116,979**	**52,116,979**	**52,116,979**
Non-cumulative perpetual preferred stock		-	-	-
Other preferred stock subject to certain limitations			-	-
Subordinated debt subject to certain limitation				
Allowance for loan losses and reserve for credit losses subject to certain limitations			**2,626,693**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(22,574,716)**	**(22,574,716)**	**(22,574,716)**	**(22,574,716)**
Other regulatory required deductions	-	-	-	-
	185,352,261	185,352,261	187,978,954	185,352,261
Denominator:				
Risk-adjusted assets excluding allowance	**1,391,821,372**	**1,391,821,372**	**1,391,821,372**	**1,391,821,372**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(22,574,716)**	**(22,574,716)**	**(22,574,716)**	**(22,574,716)**
Allowance for loan losses				**(2,559,092)**
	1,369,246,656	1,369,246,656	1,369,246,656	1,366,687,564

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**77,884,550**	**77,884,550**
Paid-in capital	**10,238,891**	**10,238,891**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**5,233,877**	-
Other required member purchased stock held <5 years		
Other required member purchased stock held ≥ 5 years but < 7 years		
Other required member purchased stock held ≥7 years		
Allocated equities:		
Allocated equities held <5 years		
Allocated equities held ≥5 years but < 7 years		
Allocated equities held ≥7	**62,452,680**	-
Nonqualified allocated equities not subject to retirement	**52,116,979**	**52,116,979**
Non-cumulative perpetual preferred stock	-	
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitation		
Allowance for loan losses and reserve for credit losses subject to certain limitations		
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(22,574,716)**	**(22,574,716)**
Other regulatory required deductions	-	-
	185,352,261	**117,665,704**
Denominator:		
Total Assets	**1,436,568,465**	**1,436,568,465**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(25,662,865)**	**(25,662,865)**
	1,410,905,600	1,410,905,600

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the three months ended March 31:

	2023	**2022**
Accumulated other comprehensive income (loss) at January 1	**$588,359**	**$ (202,103)**
Amortization of actuarial (gain) loss included in salaries and employee benefits	**(10,341)**	(3,375)
Other comprehensive income (loss), net of tax	**(10,341)**	(3,375)
Accumulated other comprehensive income (loss) at March 31	**$ 578,018**	$ (205,478)

NOTE 5 — INCOME TAXES:

Southern AgCredit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Southern AgCredit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Southern AgCredit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended March 31, 2023 and 2022, the net accrued tax liability/benefit was $0.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 to the 2022 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

March 31, 2023	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets held in non-qualified benefits trusts	**$ 35,195**	**$ -**	**$ -**	**$ 35,195**

December 31, 2022	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets held in non-qualified benefits trusts	$ 35,326	$ -	$ -	$ 35,326

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

March 31, 2023	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets:				
Loans	**$ -**	**$ -**	**$ 273,578**	**$ 273,578**

December 31, 2022	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	$ -	$ -	$ 56,611	$ 56,611

*Represents the fair value of certain loans that were evaluated for impairment under the authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Valuation Techniques

As more fully discussed in Note 14 to the 2022 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a summary of the valuation techniques used for the association's assets and liabilities. For a more complete description, see Notes to the 2022 Annual Report to Stockholders.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. 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. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three months ended March 31:

	Other Benefits	
	2023	2022
Service cost	**$ 6,131**	$ 9,950
Interest cost	**35,403**	27,575
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(3,375)**	(3,375)
Amortization of net actuarial (gain) loss	**(6,965)**	-
Net periodic benefit cost	**$ 31,194**	$ 34,150

The association's liability for the unfunded accumulated obligation for these benefits at March 31, 2023, was $2,802,550 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2022, that it expected to contribute $278,814 to the district's defined benefit pension plan in 2023. As of March

31, 2023, $69,704 of contributions have been made. The association presently anticipates contributing an additional $209,110 to fund the defined benefit pension plan in 2023 for a total of $278,814

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At March 31, 2023, $114,489,182 of commitments and $251,781 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. Therefore, the association has recognized an estimated risk loss liability, included on the balance sheet with other liabilities, determined on the same basis as the allowance for loan loss is determined. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower

NOTE 9 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through May 10, 2023 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 10, 2023.