



SOUTHERN AGCREDIT

Financial Solutions for Agriculture

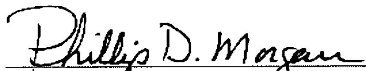
Stockholders' Quarterly Financial Report
For the Quarter Ended September 30, 2023


REPORT OF MANAGEMENT

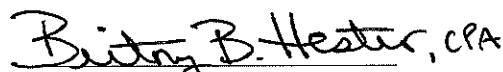
The consolidated financial statements of Southern AgCredit, ACA (association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared 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
November 9, 2023


Bryan "Scott" Bell
Chairman, Board of Directors
November 9, 2023


Britny B. Hester, CPA
Chief Financial Officer
November 9, 2023

SOUTHERN AGCREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Southern AgCredit, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended September 30, 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 recently completed on a new office building in Ridgeland, Mississippi, which houses the Ridgeland branch and administrative offices. The building was occupied in early March of the current year. 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 September 30, 2023, including nonaccrual loans and sales contracts, were \$1,436,042,414 compared to \$1,377,303,644 at December 31, 2022, reflecting an increase of 4.3%. Nonaccrual loans as a percentage of total loans outstanding were 0.1 percent at September 30, 2023 and December 31, 2022.

The association recorded no recoveries or charge-offs for the quarter ended September 30, 2023, and \$0 in recoveries and \$11,873 in charge-offs for the same period in 2022. The association's allowance for credit losses was 0.2 percent and 0.1 percent of total loans outstanding as of September 30, 2023, and December 31, 2022, respectively.

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 \$12,389,957 and \$12,531,490 as of September 30, 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.

	September 30, 2023		December 31, 2022	
	Amount	%	Amount	%
Nonaccrual	\$ 1,500,014	99.1%	\$ 666,741	100.0%
90 days past due and still accruing interest	14,130	0.9%	-	0.0%
Total	\$ 1,514,144	100.0%	\$ 666,741	100.0%

The balance of nonaccrual volume as of September 30, 2023 is primarily secured by real estate, receivables, crops and inventory with a total specific allowance of \$505,322 related to loans on two unrelated borrowers. 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 in the current year. There was one loan classified as 90 days past due and still accruing interest at quarter end. This loan was well-collateralized, in the process of collection and paid in full two days following the close of the quarter.

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 transaction. The association continues to service the loans included in this transaction. These AMBS are included in the association's Consolidated Balance Sheet as held-to-maturity investments at an amortized cost balance of \$1,063,533 at September 30, 2023. The association continues to service the loans included in those transactions.

Results of Operations:

The association had net income of \$6,131,350 and \$19,142,550 for the three and nine months ended September 30, 2023, as compared to net income of \$6,387,533 and \$18,563,356 for the same period in 2022, reflecting a decrease of 4.0 percent and an increase of 3.1 percent. Net interest income was \$9,031,422 and \$26,588,813 for the three and nine months ended September 30 2023, compared to \$8,191,217 and \$24,091,826 for the same period in 2022.

	Nine Months Ended			
	September 30, 2023		September 30, 2022	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 1,398,420,754	\$ 56,270,543	\$ 1,309,780,667	\$ 41,997,912
Investments	1,128,710	49,604	1,681,131	56,578
Total interest-earning assets	1,399,549,464	56,320,146	1,311,461,798	42,054,490
Interest-bearing liabilities	1,226,329,068	29,731,333	1,130,507,663	17,962,664
Impact of capital	\$ 173,220,396		\$ 180,954,135	
Net interest income		\$ 26,588,813		\$ 24,091,826

	2023	2022
	Average Yield	Average Yield
Yield on loans	5.38%	4.29%
Yield on investments	5.88%	4.50%
Total yield on interest-earning assets	5.38%	4.29%
Cost of interest-bearing liabilities	3.24%	2.12%
Interest rate spread	2.14%	2.17%
Net interest income as a percentage of average earning assets	2.54%	2.46%

Nine months ended:			
September 30, 2023 vs. September 30, 2022			
Increase (decrease) due to			
	Volume	Rate	Total
Interest income - loans & other	\$ 2,842,258	\$ 11,430,372	\$ 14,272,630
Interest income - investments	(18,591)	11,617	(6,974)
Total interest income	2,823,667	11,441,989	14,265,656
Interest expense	1,522,540	10,246,129	11,768,669
Net interest income	\$ 1,301,127	\$ 1,195,860	\$ 2,496,987

Interest income for the three and nine months ended September 30, 2023, increased by \$4,627,734 and \$14,265,656, or 30.6 percent and 33.9 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 and nine months ended September 30, 2023, increased by \$3,787,529 and \$11,768,669, or 54.6 percent and 65.5 percent, from the same period of 2022 due an increase in average debt volume with an increase in cost of funds. Average loan volume as of September 30, 2023 was \$1,398,420,754, compared to \$1,309,780,667 as of September 30, 2022. The average net interest rate spread on the loan portfolio as of September 30, 2023 was 2.14 percent, compared to 2.17 percent as of September 30, 2022.

The association's return on average assets for the nine months ended September 30, 2023, was 1.76 percent compared to 1.82 percent for the same period in 2022. The association's return on average equity for the nine months ended September 30, 2023, was 11.76 percent, compared to 12.01 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.

	September 30, 2023	December 31, 2022
Note payable to the Bank	\$ 1,247,628,639	\$ 1,186,601,640
Accrued interest on note payable	3,584,769	2,949,902
Total	\$ 1,251,213,408	\$ 1,189,551,542

The association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2024. The primary source of liquidity and funding for the association is a direct loan from the Bank. The outstanding balance of \$1,247,628,639 as of September 30, 2023, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 3.62 percent at September 30, 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 \$171,897,501 at September 30, 2023. The maximum amount the association may borrow from the Bank as of September 30, 2023, was \$1,434,828,473 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 20, 2024, 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 \$18,089,294 at September 30, 2023, compared to December 31, 2022. The association's debt as a percentage of members' equity was 5.60:1 as of September 30, 2023, compared to 5.86:1 as of December 31, 2022.

Farm Credit Administration regulations require the association 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 September 30, 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. In mid-July, management was notified by the Bank’s management team of their plan to re-forecast their 2023 financial plan. The most significant impact to the association is the forecasted decrease in the direct note patronage program due to volatility in market conditions that are impacting the Bank’s capital position and other financial metrics. The association continues to adjust direct note patronage based on the most updated projections provided by the Bank.

The Management’s Discussion and Analysis and Notes to Financial Statements contained in the 2022 Annual Report of association more fully describe the association’s relationship with the Bank.

The annual and quarterly stockholder reports of the Bank can be found at the Bank’s 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

	September 30, 2023 (unaudited)	December 31, 2022
<u>ASSETS</u>		
Cash	\$ 20,472	\$ 28,460
Investments	1,063,533	1,224,024
Loans	1,436,042,414	1,377,303,644
Less: allowance for credit losses	3,317,634	1,636,968
Net loans	1,432,724,780	1,375,666,676
Accrued interest receivable		
Loans	14,515,554	11,789,157
Investments	14,629	21,982
Investment in and receivable from the Farm		
Credit Bank of Texas:		
Capital stock	22,754,470	22,754,470
Other	5,907,947	1,258,818
Premises and equipment, net	19,032,448	17,842,783
Other assets	747,799	906,560
Total assets	\$ 1,496,781,632	\$ 1,431,492,930
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 1,247,628,639	\$ 1,186,601,640
Guaranteed obligations to government entities	12,389,957	12,531,490
Advance conditional payments	73,920	99,292
Accrued interest payable	3,584,769	2,949,902
Drafts outstanding	269,831	71,896
Patronage distributions payable	-	11,883,219
Other liabilities	5,951,254	8,561,523
Total liabilities	1,269,898,370	1,222,698,962
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	5,333,590	5,228,975
Additional paid-in capital	10,238,891	10,238,891
Unallocated retained earnings	210,753,445	192,737,743
Accumulated other comprehensive income (loss)	557,336	588,359
Total members' equity	226,883,262	208,793,968
Total liabilities and members' equity	\$ 1,496,781,632	\$ 1,431,492,930

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<u>INTEREST INCOME</u>				
Loans	\$ 19,740,081	15,113,121	\$ 56,270,542	41,997,912
Investments	16,206	15,432	49,604	56,578
Total interest income	<u>19,756,287</u>	<u>15,128,553</u>	<u>56,320,146</u>	<u>42,054,490</u>
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	10,724,862	6,937,200	29,722,806	17,962,293
Advance conditional payments	3	136	8,527	371
Total interest expense	<u>10,724,865</u>	<u>6,937,336</u>	<u>29,731,333</u>	<u>17,962,664</u>
Net interest income	<u>9,031,422</u>	<u>8,191,217</u>	<u>26,588,813</u>	<u>24,091,826</u>
<u>PROVISION FOR CREDIT LOSSES</u>				
	<u>158,232</u>	<u>90,821</u>	<u>536,924</u>	<u>98,430</u>
Net interest income after provision for credit losses	<u>8,873,190</u>	<u>8,100,396</u>	<u>26,051,889</u>	<u>23,993,396</u>
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	1,439,686	2,054,058	5,617,595	6,115,812
Loan fees	107,526	99,944	302,807	305,280
Financially related services income	154	157	9,430	674
Gain (loss) on other property owned, net	-	-	(336)	(10,351)
Gain (loss) on sale of premises and equipment, net	(1,998)	6,732	68,323	6,732
Other noninterest income	664	1,193	10,502	70,669
Total noninterest income	<u>1,546,032</u>	<u>2,162,084</u>	<u>6,008,321</u>	<u>6,488,816</u>
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	2,073,198	1,944,557	6,151,982	5,976,883
Occupancy and equipment	429,056	352,253	1,336,461	1,070,177
Insurance fund premiums	496,147	509,777	1,463,373	1,492,106
Other components of net periodic postretirement benefit cost	31,194	34,149	93,582	102,447
Other noninterest expense	1,258,277	1,034,211	3,872,247	3,277,243
Total noninterest expenses	<u>4,287,872</u>	<u>3,874,947</u>	<u>12,917,645</u>	<u>11,918,856</u>
Income before income taxes	<u>6,131,350</u>	<u>6,387,533</u>	<u>19,142,565</u>	<u>18,563,356</u>
NET INCOME	<u>6,131,350</u>	<u>6,387,533</u>	<u>19,142,565</u>	<u>18,563,356</u>
Other comprehensive income:				
Change in postretirement benefit plans	(10,341)	(3,375)	(31,023)	(10,125)
Other comprehensive income, net of tax	(10,341)	(3,375)	(31,023)	(10,125)
COMPREHENSIVE INCOME	<u>\$ 6,121,009</u>	<u>\$ 6,384,158</u>	<u>\$ 19,111,542</u>	<u>\$ 18,553,231</u>

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Additional Paid-in-Capital</u>	<u>Retained Earnings Unallocated</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2021	\$ 5,030,515	\$ 10,238,891	\$ 180,692,595	\$ (202,103)	\$ 195,759,898
Comprehensive income	-	-	18,563,356	(10,125)	18,553,231
Capital stock/participation certificates and allocated retained earnings issued	690,615	-	-	-	690,615
Capital stock/participation certificates and allocated retained earnings retired	(518,935)	-	-	-	(518,935)
Balance at September 30, 2022	<u>\$ 5,202,195</u>	<u>\$ 10,238,891</u>	<u>\$ 199,255,951</u>	<u>\$ (212,228)</u>	<u>\$ 214,484,809</u>
Balance at December 31, 2022	\$ 5,228,975	\$ 10,238,891	\$ 192,737,743	\$ 588,359	\$ 208,793,968
Comprehensive income	-	-	19,142,565	(31,023)	19,111,542
Capital stock/participation certificates and allocated retained earnings issued	566,505	-	-	-	566,505
Capital stock/participation certificates and allocated retained earnings retired	(461,890)	-	-	-	(461,890)
Cumulative effect of change in accounting principle	-	-	(1,126,863)	-	(1,126,863)
Balance at September 30, 2023	<u>\$ 5,333,590</u>	<u>\$ 10,238,891</u>	<u>\$ 210,753,445</u>	<u>\$ 557,336</u>	<u>\$ 226,883,262</u>

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 unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. 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, 2023. 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.

Recently Adopted Accounting Pronouncements

The association adopted 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)	66,901
Retained earnings:			
Unallocated retained earnings, net of tax	76,992,877	(1,126,863)	75,866,014

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

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

- Lending policies and procedures;
- National, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
- Nature of the loan portfolio, including the terms of the loans;
- Experience, ability and depth of the lending management and other relevant staff;
- Volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- Quality of the loan review and process;
- Value of underlying collateral for collateral-dependent loans;
- Existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- 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 uses multiple scenarios over reasonable and supportable forecast period of two years. Subsequent to the forecast period, the association 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 in 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 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 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. No allowance for credit losses are recorded for commitments that are unconditionally cancellable.

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:

September 30, 2023					
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	
\$ 1,063,533	\$ -	\$ 43,637	\$1,019,896	6.09%	

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	September 30,	December 31,
	2023	2022
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 1,173,472,325	\$ 1,139,471,583
Production and intermediate-term	136,027,160	133,146,153
Agribusiness:		
Loans to cooperatives	5,464,179	6,728,364
Processing and marketing	44,603,903	43,720,726
Farm-related business	9,268,536	9,352,125
Communication	23,870,865	24,242,073
Energy	19,548,030	11,592,647
Water and waste-water	7,069,714	4,414,660
Rural residential real estate	2,597,531	2,665,224
Agricultural export finance	14,120,171	1,970,089
Total	\$ 1,436,042,414	\$ 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 September 30, 2023:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations	Participations	Participations	Participations	Participations	Participations
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 21,559,144	\$ 837,870	\$ 4,551,900	\$ -	\$ 26,111,044	\$ 837,870
Production and intermediate-term	22,774,680	39,006,605	-	-	22,774,680	39,006,605
Agribusiness	58,998,519	-	-	-	58,998,519	-
Communication	23,870,865	-	-	-	23,870,865	-
Energy	19,548,030	-	-	-	19,548,030	-
Water and waste-water	7,069,714	-	-	-	7,069,714	-
Agricultural export finance	14,120,171	-	-	-	14,120,171	-
Total	\$167,941,123	\$ 39,844,475	\$ 4,551,900	\$ -	\$172,493,023	\$ 39,844,475

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 \$73,920 and \$99,292 at September 30, 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 association 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, institution that make 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 association 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 tracks 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 association 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 migrates from acceptable to other assets especially mentioned and grows significantly as a loan migrates 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, or collateral pledged on the loan,
- Doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing facts, 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:

	<u>September 30,</u> <u>2023</u>		<u>December 31,</u> <u>2022</u>
Real estate mortgage			
Acceptable	99.33	%	99.16 %
OAEM	0.43		0.52
Substandard/doubtful	0.24		0.32
	100.00		100.00
Production and intermediate term			
Acceptable	99.00		99.94
OAEM	0.05		0.06
Substandard/doubtful	0.95		-
	100.00		100.00
Loans to cooperatives			
Acceptable	100.00		100.00
OAEM	-		-
Substandard/doubtful	-		-
	100.00		100.00
Processing and marketing			
Acceptable	100.00		96.98
OAEM	-		-
Substandard/doubtful	-		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	0.48		0.44
Substandard/doubtful	0.29		0.36
	100.00	%	100.00 %

Accrued interest receivable on loans of \$14,515,554 and \$11,789,157 at September 30, 2023 and December 31, 2022 have been excluded from the amortized cost of loans and reported separately in the Balance Sheet. The association did not write off any accrued interest receivable for the three months ended September 30, 2023.

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

	September 30, 2023	December 31, 2022
Nonaccrual loans:		
Real estate mortgage	\$ 222,353	\$ 666,741
Production and intermediate-term	1,277,661	-
Total nonaccrual loans	<u>\$ 1,500,014</u>	<u>\$ 666,741</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 14,130	-
Total accruing loans 90 days or more past due	<u>\$ 14,130</u>	<u>\$ -</u>
Total nonperforming assets	<u><u>\$ 1,514,144</u></u>	<u><u>\$ 666,741</u></u>
Nonaccrual loans as a percentage of total loans	0.1%	0.1%
Nonperforming assets as a percentage of total loans and other property owned	0.1%	0.1%
Nonperforming assets as a percentage of capital	0.7%	0.3%

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

	September 30, 2023			Interest Income Recognized	
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2023
Nonaccrual loans:					
Real estate mortgage	\$ 66,146	\$ 156,207	\$ 222,353	\$ 63,841	\$ 162,862
Production and intermediate-term	\$ 1,277,661	\$ -	\$ 1,277,661	\$ -	\$ -
Total nonaccrual loans	<u>\$ 1,343,807</u>	<u>\$ 156,207</u>	<u>\$ 1,500,014</u>	<u>\$ 63,841</u>	<u>\$ 162,862</u>

The following tables provide an aging analysis of past due loans at amortized cost by portfolio segment as of:

September 30, 2023	September 30, 2023		Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
	30-89 Days Past Due	90 Days or More Past Due				
Real estate mortgage	\$ 1,161,590	\$ 36,272	\$ 1,197,862	\$ 1,172,274,463	\$ 1,173,472,325	\$ 14,130
Production and intermediate term	7,500	343,688	351,188	135,675,972	136,027,160	-
Loans to cooperatives	-	-	-	5,464,179	5,464,179	-
Processing and marketing	-	-	-	44,603,903	44,603,903	-
Farm-related business	-	-	-	9,268,536	9,268,536	-
Communication	-	-	-	23,870,865	23,870,865	-
Energy	-	-	-	19,548,030	19,548,030	-
Water and waste-water	-	-	-	7,069,714	7,069,714	-
Rural residential real estate	-	-	-	2,597,531	2,597,531	-
Agricultural export finance	-	-	-	14,120,171	14,120,171	-
Total	<u>\$ 1,169,090</u>	<u>\$ 379,960</u>	<u>\$ 1,549,050</u>	<u>\$ 1,434,493,364</u>	<u>\$ 1,436,042,414</u>	<u>\$ 14,130</u>

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	Recorded Investment >90 Days and Accruing
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 association'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 by the association to manage credit exposure. The regulatory limit to a single borrower or lessee is 15% of the association's lending and leasing limit base but the association's boards of directors have generally established more restrictive lending limits.

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 are as follows:

	Real Estate Mortgage	Production and Intermediate- Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Total
Allowance for Credit Losses on Loans*:								
Balance at June 30, 2023	\$ 2,470,792	\$ 543,110	\$ 96,322	\$ 26,657	\$ 12,174	\$ 4,994	\$ 2,783	\$ 3,156,832
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for credit losses/(Loan loss reversal)	108,167	41,291	(3,800)	15,333	(484)	311	(16)	160,802
Balance at September 30, 2023	\$ 2,578,959	\$ 584,401	\$ 92,522	\$ 41,990	\$ 11,690	\$ 5,305	\$ 2,767	\$ 3,317,634
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 a 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	\$ 2,480,860	\$ 92,966	\$ 163,983	\$ 17,792	\$ 5,876	\$ 5,471	\$ 976	\$ 2,767,924
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses (loan loss reversal)	90,879	489,347	(77,818)	24,198	9,084	(166)	1,401	536,924
Other	7,220	2,087	6,357	-	(3,270)	-	390	12,785
Balance at September 30, 2023	\$ 2,578,959	\$ 584,401	\$ 92,522	\$ 41,990	\$ 11,690	\$ 5,305	\$ 2,767	\$ 3,317,634
Balance at June 30, 2022	\$ 1,305,413	\$ 177,299	\$ 134,687	\$ 15,443	\$ 4,765	\$ 3,740	\$ 1,305	\$ 1,642,652
Charge-offs	(11,873)	-	-	-	-	-	-	(11,873)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses (loan loss reversal)	(33,303)	121,006	(4,838)	(507)	(143)	68	6	82,289
Balance at September 30, 2022	\$ 1,260,236	\$ 298,305	\$ 129,849	\$ 14,936	\$ 4,622	\$ 3,808	\$ 1,311	\$ 1,713,068
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	(11,873)	-	-	-	-	-	-	(11,873)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses (loan loss reversal)	(5,907)	97,881	(11,253)	209	1,415	(415)	24	81,955
Balance at September 30, 2022	\$ 1,260,236	\$ 298,305	\$ 129,849	\$ 14,936	\$ 4,622	\$ 3,808	\$ 1,311	\$ 1,713,068
Allowance for Unfunded Commitments:								
Balance at June 30, 2023	\$ 13,472	\$ 10,523	\$ 27,009	\$ -	\$ 3,457	\$ -	\$ 2,225	\$ 56,685
Provision for unfunded commitments	(2,833)	(315)	(683)	-	(46)	-	1,307	(2,570)
Balance at September 30, 2023	\$ 10,639	\$ 10,207	\$ 26,326	\$ -	\$ 3,411	\$ -	\$ 3,532	\$ 54,115
Balance at December 31, 2022	\$ 13,239	\$ 31,024	\$ 24,620	\$ -	\$ -	\$ -	\$ 2,109	\$ 70,992
Cumulative effect of a 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	(7,221)	(2,088)	(6,357)	-	3,270	-	(390)	(12,785)
Balance at September 30, 2023	\$ 10,639	\$ 10,207	\$ 26,326	\$ -	\$ 3,411	\$ -	\$ 3,532	\$ 54,115

* 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 Minimums with Buffer	As of September 30, 2023
Common equity tier 1 ratio	7.00%	13.91%
Tier 1 capital ratio	8.50%	13.91%
Total capital ratio	10.50%	14.14%
Permanent capital ratio	7.00%	13.94%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	13.57%
UREE leverage ratio	1.50%	8.89%

The details for the amounts used in the calculation of the regulatory capital ratios as of September 30, 2023:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	88,046,081	88,046,081	88,046,081	88,046,081
Paid-in capital	10,238,891	10,238,891	10,238,891	10,238,891
Common Cooperative Equities:	-	-	-	-
Statutory minimum purchased borrower stock	5,282,315	5,282,315	5,282,315	5,282,315
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	53,292,186	53,292,186	53,292,186	53,292,186
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	-	-	3,217,033	-
Regulatory Adjustments and Deductions:	-	-	-	-
Amount of allocated investments in other System institutions	(22,754,470)	(22,754,470)	(22,754,470)	(22,754,470)
Other regulatory required deductions	-	-	-	-
	196,557,683	196,557,683	199,774,716	196,557,683
Denominator:				
Risk-adjusted assets excluding allowance	1,435,774,972	1,435,774,972	1,435,774,972	1,435,774,972
Regulatory Adjustments and Deductions:	-	-	-	-
Regulatory deductions included in total capital	(22,754,470)	(22,754,470)	(22,754,470)	(22,754,470)
Allowance for loan losses	-	-	-	(3,160,405)
	1,413,020,502	1,413,020,502	1,413,020,502	1,409,860,097

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	88,046,081	88,046,081
Paid-in capital	10,238,891	10,238,891
Common Cooperative Equities:	-	-
Statutory minimum purchased borrower stock	5,282,315	-
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	53,292,186	53,292,186
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	(22,754,470)	(22,754,470)
Other regulatory required deductions	-	-
	196,557,683	128,822,688
Denominator:		
Total Assets	1,477,016,380	1,477,016,380
Regulatory Adjustments and Deductions:	-	-
Regulatory deductions included in tier 1 capital	(28,661,673)	(28,661,673)
	1,448,354,707	1,448,354,707

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 nine months ended September 30:

	<u>2023</u>	<u>2022</u>
Accumulated other comprehensive income (loss) at January 1	\$ 588,359	\$(202,103)
Amortization of prior service (credit) costs included in salaries and employee benefits	(10,124)	-
Amortization of actuarial loss included in salaries and employee benefits	(20,899)	(10,125)
Other comprehensive loss, net of tax	(31,023)	(10,125)
Accumulated other comprehensive income (loss) at September 30	\$ 557,336	\$(212,228)

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 September 30, 2023 and 2022, the net accrued tax liability/benefit was \$0.

NOTE 6 — FAIR VALUE MEASUREMENTS:

Accounting 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 in the 2022 Annual Report to Stockholders for a more complete description.

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

<u>September 30, 2023</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets held in non-qualified benefits trusts	\$ 67,303	\$ -	\$ -	\$ 67,303
December 31, 2022				
	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets held in non-qualified benefits trusts	\$ 35,326	\$ -	\$ -	\$ 35,326

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

<u>September 30, 2023</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans	\$ -	\$ -	\$ 838,486	\$ 838,486
December 31, 2022				
	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans	\$ -	\$ -	\$ 56,611	\$ 56,611

Valuation Techniques

As more fully discussed in Note 2 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 brief summary of the valuation techniques used for the association's assets and liabilities. For a more complete description, see 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 and nine months ended September 30:

Three months ended September 30:

	Pension Benefits	
	2023	2022
Service cost	\$ 6,131	\$ 11,047
Interest cost	35,403	26,017
Expected return on plan assets	-	-
Amortization of prior service (credits) costs	(3,375)	(3,375)
Amortization of net actuarial (gain) loss	(6,965)	3,187
Net periodic benefit cost	\$ 31,194	\$ 36,876

Nine months ended September 30:

	Pension Benefits	
	2023	2022
Service cost	\$ 18,392	\$ 33,141
Interest cost	106,209	78,049
Expected return on plan assets	-	-
Amortization of prior service (credits) costs	(10,124)	(10,124)
Amortization of net actuarial (gain) loss	(20,896)	9,562
Net periodic benefit cost	\$ 93,582	\$ 110,628

The association's liability for the unfunded accumulated obligation for these benefits at September 30, 2023, was \$2,817,823 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 September 30, 2023, \$209,111 of contributions have been made. The association presently anticipates contributing an additional \$69,703 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 September 30, 2023, \$120,060,969 of commitments and \$316,255 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 November 9, 2023, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 9, 2023.