Horizon Farm Credit, ACA

FIRST QUARTER 2023

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CERTIFICATION

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

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian E. Rosati
Chief Financial Officer

Shawn D. Wolfinger
Chair of the Board

May 9, 2023

Horizon Farm Credit, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2023. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of March 31, 2023, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2023.

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian E. Rosati
Chief Financial Officer

May 9, 2023

Horizon Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Horizon Farm Credit, ACA (Association) for the period ended March 31, 2023. The comments contained in this report should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2022 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

MERGER ACTIVITY

AgChoice Farm Credit, ACA, merged with MidAtlantic Farm Credit, ACA, (the Merger) to form Horizon Farm Credit, ACA, effective July 1, 2022. Horizon Farm Credit, ACA, is headquartered in Mechanicsburg, PA. The Merger brought together two successful and respected Associations to better serve agriculture and our rural communities through optimized resources, increased efficiency, and greater access to specialized expertise.

The effects of the Merger are included in our financial position, results of operations and related metrics beginning July 1, 2022. Prior year results are not relative of the Merger executed on July 1, 2022. Results of operations and equity reflect the results of MidAtlantic Farm Credit, ACA through June 30, 2022, and the merged Association on July 1, 2022 and thereafter. Upon the closing of the merger, loans increased $2.6 billion, liabilities increased $2.2 billion and equity increased $438.6 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations. See further information regarding the merger within *Note 9 – Merger Activity,* of the Notes to the Consolidated Financial Statements.

The merger was accounted for under the acquisition method of accounting in accordance with the FASB Accounting Standards Codification (ASC) 805 Business Combinations (ASC 805). As the accounting acquirer, MidAtlantic Farm Credit recognized the identifiable assets acquired and liabilities assumed in the Merger as of the Effective Date at their respective fair values. The fair value of the net identifiable assets was substantially equal to the fair value of the equity interest exchanged in the merger. As a result, no goodwill was recorded.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for the financing of short-term and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio encompasses a well-diversified range of agricultural commodities, including cash grains, dairy, livestock, poultry, forest products, various crops, and also includes part-time and rural home loans. In addition, the Association provides loans to lessors of agricultural real estate. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, impacts the level of dependency on any particular commodity.

Comparison of March 31, 2023 to December 31, 2022

Loans at March 31, 2023 totaled $6,276,102 compared to $6,055,951 at December 31, 2022, an increase of $220,151 (3.64 percent) during the three months. The Association's allowance for loan losses of $17,650 decreased $5,656 (24.27 percent) during the first three months of 2023, resulting in net loans (loans less allowance for loan losses) of $6,258,452 and $6,032,645 at March 31, 2023 and December 31, 2022, respectively. Nonaccrual loans increased $1,630 (5.02 percent) from $32,490 at December 31, 2022 to $34,120 at March 31, 2023. In addition, Other property owned decreased from $1,095 at December 31, 2022 (five properties) to $960 at March 31, 2023 (four properties).

There is an inherent risk in the extension of any type of credit and, accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio. Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. The allowance for loan losses represented 0.28 percent and 0.38 percent of loans, and 51.73 percent and 71.73 percent of nonaccrual loans, at March 31, 2023 and December 31, 2022, respectively. See also Note *2, Loans and Allowance for Credit Losses*, in the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

For the three months ended March 31, 2023

Net income for the three months ended March 31, 2023 totaled $34,173, an increase of $17,102 (100.18 percent) compared to the three months ended March 31, 2022. Our stronger earnings primarily reflect the favorable impact of the merger on net interest income due to increased loan volume, partially offset by higher operating expenses. Major changes in the components of net income are identified as follows:

- Net interest income for the three months was up $25,947 (134.94 percent). The change in net interest income was primarily due to earnings on acquired loans due to the Merger. The increase in net interest income is attributable to (a) a $19,128 increase due to both a change in interest rate and a $3.1 billion increase in the daily balance of accruing portfolio volume, as well as the impact of the GAAP fair market value adjustments of $5,079 as a result of the Merger, (b) a favorable variance of $6,832 due to increased earnings on free cash held at AgFirst Farm Credit Bank (Bank or AgFirst), partially offset by (c) a decrease of $13 in net interest recognized attributable to nonaccruing loans.

- The Association recorded a reversal of allowance for credit losses of $81 and $5,000 in the first quarter of 2023 and 2022, respectively. The Association's nonaccrual loans to total loans remained 0.54 percent at December 31, 2022 to March 31, 2023, and decreased from 1.22 percent at March 31, 2022. See also Note 2, Loans and Allowance for Credit Losses, in the Notes to the Consolidated Financial Statements.

- "Patronage refunds from other Farm Credit institutions" on the Consolidated Statements of Comprehensive Income of $9,665 and $4,324, respectively, includes accruals for the quarter ended March 31, 2023 and 2022, based on first quarter operations only; management anticipates additional income for the remaining quarters in 2023. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income.

- The Noninterest income increase in the first quarter of $6,742 (128.0 percent) primarily included, (a) a $5,341 increase in Patronage related income, (b) an increase of $1,063 from Fees for financially related services, (c) an increase of $476 from Loan fees, (d) a $93 increase due to no recorded losses on other transactions in the current year compared to losses in the prior year, (e) an increase of $29 from gains on the sales of premises and equipment, net, partially offset by (f) a decrease of $267 due to decreased gains on sales of rural home loans, net.

- The Noninterest expense for the first quarter of 2023 was $22,592 as compared to $12,344 for the same period of 2022 or an increase of $10,248 (83.02 percent). The change in Noninterest expense was primarily a result of the Merger.

  The three month increase of $6,351 (77.67 percent) for Salaries and employee benefits includes an increase of salaries due to an increase in headcount primarily related to the Merger of $5,766, increased cost of employee benefits of $1,739, offset by favorable deferred personnel costs of $1,154. See also Note 7, *Employee Benefit Plans*, in the Notes to the Consolidated Financial Statements.

  Insurance Fund premiums expense increased $1,344 (148.8 percent) in conjunction with an increase in loan volume during first quarter of 2023 and an increase in premium rate. The Farm Credit System Insurance Corporation (FCSIC) premium was 0.18 and 0.16 percent for the first quarters of 2023 and 2022, respectively.

  Occupancy and equipment and Other operating expenses increased $2,554 (77.09 percent) from $3,313 to $5,867, which includes expense increases in advertising, travel and operating costs.

- The Association recorded a Provision for income taxes of $500 and $80 for the first quarters of 2023 and 2022, respectively.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The Association utilizes the variable rate note to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Notes payable to the Bank at March 31, 2023 was $5,120,871 compared to $4,910,198 at December 31, 2022. The increase during the period of $210,673 (4.29 percent) corresponds to (a) the increase in the Association's loan volume, (b) patronage payments to stockholders, offset by (c) current year net cash generated from operating activities and (d) receipt of prior year Bank patronage.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2023 that would affect minimum stock purchases or have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at March 31, 2023 totaled $1,167,216, an increase of $19,720 (1.72 percent) compared to total members' equity of $1,147,496 at December 31, 2022. This increase is attributed to (a) Current Expected Credit Losses (CECL) cumulative effect adjustment to retained earnings of $5,648, (b) Total Comprehensive income of $34,173 for the first three months ended March 31, 2023, (c) net member capital stock/participation certificates retired of $553, and (d) an estimated $19,250 cash patronage distribution accrual for the first three months of 2023.

The capital regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity tier 1 (CET1) capital, Tier 1 capital, and total regulatory capital risk-based ratios. The regulations also include a Tier 1 leverage ratio which includes an unallocated retained earnings (URE) and URE equivalents (UREE) component. The permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The Tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is Tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The Tier 1 leverage ratio is Tier 1 capital, divided by average assets less regulatory deductions to Tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to Tier 1 capital.

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

Ratio	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2023	Capital Ratios as of March 31, 2022
Risk-adjusted ratios:			
CET1 Capital	7.00%	16.34%	19.98%
Tier 1 Capital	8.50%	16.34%	19.98%
Total Capital	10.50%	16.63%	20.96%
Permanent Capital Ratio	7.00%	16.64%	20.17%
Non-risk-adjusted:			
Tier 1 Leverage Ratio	5.00%	17.65%	21.35%
UREE Leverage Ratio	1.50%	17.30%	20.96%

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

LIBOR Transition

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

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

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

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

(dollars in millions)	Due in 2023 (On or Before June 30)	Due After June 30, 2023	Total
Investments	$ –	$ –	$ –
Loans	9,390	258,891	268,281
Total Assets	$ 9,390	$ 258,891	$ 268,281
Note Payable to AgFirst Farm Credit Bank	$ 7,544	$ 208,013	$ 215,557
Total Liabilities	$ 7,544	$ 208,013	$ 215,557

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

REGULATORY MATTERS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

SHAREHOLDER INVESTMENT

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

WHISTLEBLOWER

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline at 1-833-220-9773 or a link to the website is available at ***www.horizonfarmcredit.ethicspoint.com***.

Horizon Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	**March 31, 2023**	**December 31, 2022**
	(unaudited)	*(audited)*
Assets		
Cash	**$ 28**	$ 24
Loans	**6,276,102**	6,055,951
Allowance for loan losses	**(17,650)**	(23,306)
Net loans	**6,258,452**	6,032,645
Loans held for sale	**—**	22
Other investments	**588**	452
Accrued interest receivable	**32,896**	28,833
Equity investments in other Farm Credit institutions	**74,844**	75,269
Premises and equipment, net	**28,140**	28,336
Other property owned	**960**	1,095
Accounts receivable	**10,875**	36,936
Other assets	**6,236**	5,418
Total assets	**$ 6,413,019**	$ 6,209,030
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 5,120,871**	$ 4,910,198
Accrued interest payable	**16,077**	14,099
Patronage refunds payable	**21,537**	91,144
Accounts payable	**10,595**	17,950
Advanced conditional payments	**870**	870
Other liabilities	**75,853**	27,273
Total liabilities	**5,245,803**	5,061,534
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**21,330**	21,883
Additional paid-in-capital	**267,216**	267,216
Retained earnings		
Allocated	**589,405**	586,676
Unallocated	**289,363**	271,819
Accumulated other comprehensive income (loss)	**(98)**	(98)
Total members' equity	**1,167,216**	1,147,496
Total liabilities and members' equity	**$ 6,413,019**	$ 6,209,030

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

Horizon Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended March 31, 2023	2022
Interest Income		
Loans	**$ 93,063**	$ 32,244
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**47,888**	13,016
Net interest income	**45,175**	19,228
Provision for (reversal of) allowance for credit losses	**(81)**	(5,000)
Net interest income after provision for (reversal of) allowance for credit losses	**45,256**	24,228
Noninterest Income		
Loan fees	**680**	204
Fees for financially related services	**1,535**	472
Patronage refunds from other Farm Credit institutions	**9,665**	4,324
Gains (losses) on sales of rural home loans, net	**49**	316
Gains (losses) on sales of premises and equipment, net	**29**	—
Gains (losses) on other transactions	**—**	(93)
Other noninterest income	**51**	44
Total noninterest income	**12,009**	5,267
Noninterest Expense		
Salaries and employee benefits	**14,528**	8,177
Occupancy and equipment	**872**	538
Insurance Fund premiums	**2,247**	903
Purchased services	**804**	838
Data processing	**396**	319
Other operating expenses	**3,795**	1,618
(Gains) losses on other property owned, net	**(50)**	(49)
Total noninterest expense	**22,592**	12,344
Income before income taxes	**34,673**	17,151
Provision for income taxes	**500**	80
Net income	**$ 34,173**	$ 17,071
Other comprehensive income net of tax		
Employee benefit plans adjustments	**—**	4
Comprehensive income	**$ 34,173**	$ 17,075

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

Horizon Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2021	$ 11,814	$ —	$ 407,650	$ 252,262	$ (435)	$ 671,291
Comprehensive income				17,071	4	17,075
Capital stock/participation certificates issued/(retired), net	(17)					(17)
Patronage distribution						
Cash				(12,500)		(12,500)
Patronage distribution adjustment			5,069	(2,757)		2,312
Balance at March 31, 2022	$ 11,797	$ —	$ 412,719	$ 254,076	$ (431)	$ 678,161
Balance at December 31, 2022	**$ 21,883**	**$ 267,216**	**$ 586,676**	**$ 271,819**	**$ (98)**	**$ 1,147,496**
Cumulative effect of change in accounting principle				**5,648**		**5,648**
Comprehensive income				**34,173**		**34,173**
Capital stock/participation certificates issued/(retired), net	**(553)**					**(553)**
Patronage distribution						
Cash				**(19,349)**		**(19,349)**
Patronage distribution adjustment			**2,729**	**(2,928)**		**(199)**
Balance at March 31, 2023	**$ 21,330**	**$ 267,216**	**$ 589,405**	**$ 289,363**	**$ (98)**	**$ 1,167,216**

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

Horizon Farm Credit, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

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

Effective July 1, 2022, AgChoice Farm Credit, ACA (AgChoice) merged into MidAtlantic Farm Credit, ACA (MidAtlantic) to form Horizon Farm Credit, ACA. See Note 9, *Merger Activity*, for further information.

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

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

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

Significant Accounting Policies
The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for credit losses (Note 2, *Loans and Allowance for Credit Losses*) and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

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

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

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

	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for credit losses on loans	$ 23,306	$ (5,639)	$ 17,667
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 1,500	$ (9)	$ 1,491
Retained earnings:			
Unallocated retained earnings	$ 271,819	$ 5,648	$ 277,467

Loans and Allowance for Credit Losses

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

Nonaccrual Loans

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

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

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

Accrued interest receivable

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral dependent loans

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

Allowance for Credit Losses

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

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

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

Methodology for Allowance for Credit Losses on Loans

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

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

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

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

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

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

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

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

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

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

Allowance for Credit Losses on Unfunded Commitments

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

Note 2 — Loans and Allowance for Credit Losses

A summary of loans outstanding at period end follows:

	March 31, 2023	December 31, 2022
Real estate mortgage	$ 3,519,741	$ 3,529,846
Production and intermediate-term	1,426,392	1,454,345
Agribusiness:		
Loans to cooperatives	127,566	106,603
Processing and marketing	527,733	425,531
Farm-related business	153,051	132,515
Rural infrastructure:		
Communication	204,086	188,658
Power and water/waste disposal	124,097	66,369
Rural residential real estate	91,756	91,131
Other:		
International	96,422	55,563
Lease receivables	5,258	5,390
Total loans	$ 6,276,102	$ 6,055,951

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

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

	March 31, 2023							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 59,995	$ 7,583	$ 14,661	$ 7,616	$ –	$ –	$ 74,656	$ 15,199
Production and intermediate-term	135,388	60,933	109,372	4,292	–	–	244,760	65,225
Agribusiness	119,079	253,075	281,325	37,171	115,185	–	515,589	290,246
Rural infrastructure	127,108	–	205,201	–	–	–	332,309	–
Other	19,376	–	82,956	–	–	–	102,332	–
Total	$ 460,946	$ 321,591	$ 693,515	$ 49,079	$ 115,185	$ –	$ 1,269,646	$ 370,670

	December 31, 2022							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 60,674	$ 8,150	$ 15,456	$ 8,273	$ –	$ –	$ 76,130	$ 16,423
Production and intermediate-term	125,473	57,255	85,618	4,560	–	–	211,091	61,815
Agribusiness	119,033	88,246	226,935	20,109	91,910	–	437,878	108,355
Rural infrastructure	77,775	–	182,278	–	–	–	260,053	–
Other	2,475	–	59,245	–	–	–	61,720	–
Total	$ 385,430	$ 153,651	$ 569,532	$ 32,942	$ 91,910	$ –	$ 1,046,872	$ 186,593

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

	March 31, 2023	December 31, 2022*
Real estate mortgage:		
Acceptable	96.64%	96.64%
OAEM	1.73	1.67
Substandard/doubtful/loss	1.63	1.69
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	96.37%	96.63%
OAEM	1.76	1.55
Substandard/doubtful/loss	1.87	1.82
	100.00%	100.00%
Agribusiness:		
Acceptable	99.06%	98.41%
OAEM	0.66	0.66
Substandard/doubtful/loss	0.28	0.93
	100.00%	100.00%
Rural infrastructure:		
Acceptable	100.00%	100.00%
OAEM	0.00	0.00
Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%
Rural residential real estate:		
Acceptable	96.38%	96.97%
OAEM	1.88	1.70
Substandard/doubtful/loss	1.74	1.33
	100.00%	100.00%
Other:		
Acceptable	99.94%	99.90%
OAEM	0.04	0.06
Substandard/doubtful/loss	0.02	0.04
	100.00%	100.00%
Total loans:		
Acceptable	97.11%	97.01%
OAEM	1.49	1.44
Substandard/doubtful/loss	1.40	1.55
	100.00%	100.00%

Prior to adoption of CECL on January 1, 2023, loans were presented with accrued interest receivable.

Accrued interest receivable on loans of $32,896 and $28,833 at March 31, 2023 and December 31, 2022, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

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

	March 31, 2023					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
Real estate mortgage	$ 14,621	$ 9,649	$ 24,270	$ 3,495,471	$ 3,519,741	$ –
Production and intermediate-term	4,813	4,087	8,900	1,417,492	1,426,392	–
Agribusiness	12,770	3	12,773	795,577	808,350	–
Rural infrastructure	–	–	–	328,183	328,183	–
Rural residential real estate	1,082	140	1,222	90,534	91,756	–
Other	58	–	58	101,622	101,680	–
Total	$ 33,344	$ 13,879	47,223	$ 6,228,879	$ 6,276,102	$ –

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

	December 31, 2022					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
Real estate mortgage	$ 8,085	$ 11,366	$ 19,451	$ 3,527,129	$ 3,546,580	$ –
Production and intermediate-term	5,580	3,947	9,527	1,453,317	1,462,844	34
Agribusiness	4,043	10,285	14,328	652,702	667,030	10,280
Rural infrastructure	–	–	–	255,447	255,447	–
Rural residential real estate	1,296	142	1,438	90,000	91,438	–
Other	–	–	–	61,445	61,445	–
Total	$ 19,004	$ 25,740	$ 44,744	$ 6,040,040	$ 6,084,784	$ 10,314

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

	March 31, 2023
Nonaccrual loans:	
Real estate mortgage	$ 22,330
Production and intermediate-term	11,254
Agribusiness	9
Rural residential real estate	527
Total	$ 34,120
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 34,120
Other property owned	960
Total nonperforming assets	$ 35,080
Nonaccrual loans as a percentage of total loans	0.54%
Nonperforming assets as a percentage of total loans and other property owned	0.56%
Nonperforming assets as a percentage of capital	3.01%

	December 31, 2022*
Nonaccrual loans:	
Real estate mortgage	$ 24,614
Production and intermediate-term	7,316
Agribusiness	16
Rural residential real estate	544
Total	$ 32,490
Accruing restructured loans:	
Real estate mortgage	$ 18,280
Production and intermediate-term	3,554
Agribusiness	101
Rural residential real estate	455
Total	$ 22,390
Accruing loans 90 days or more past due:	
Production and intermediate-term	$ 34
Agribusiness	10,280
Total	$ 10,314
Total nonperforming loans	$ 65,194
Other property owned	1,095
Total nonperforming assets	$ 66,289
Nonaccrual loans as a percentage of total loans	0.54%
Nonperforming assets as a percentage of total loans and other property owned	1.09%
Nonperforming assets as a percentage of capital	5.78%

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

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

	March 31, 2023			Three Months Ended March 31, 2023
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	Interest Income Recognized on Nonaccrual Loans
Real estate mortgage	$ 9,476	$ 12,854	$ 22,330	$ 144
Production and intermediate-term	6,319	4,935	11,254	72
Agribusiness	12	(3)	9	–
Rural residential real estate	527	–	527	3
Total	$ 16,334	$ 17,786	$ 34,120	$ 219

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for Loan Losses:							
Balance at December 31, 2022	$ 9,679	$ 11,429	$ 1,722	$ 148	$ 264	$ 64	$ 23,306
Cumulative effect of a change in accounting principle	(873)	(4,956)	153	15	4	18	(5,639)
Balance at January 1, 2023	$ 8,806	$ 6,473	$ 1,875	$ 163	$ 268	$ 82	$ 17,667
Charge-offs	–	–	–	–	–	–	–
Recoveries	4	3	–	–	–	–	7
Provision for loan losses	(268)	193	91	(18)	(15)	(7)	(24)
Balance at March 31, 2023	$ 8,542	$ 6,669	$ 1,966	$ 145	$ 253	$ 75	$ 17,650
Allowance for Unfunded Commitments:							
Balance at December 31, 2022	$ 34	$ 847	$ 593	$ 13	$ –	$ 13	$ 1,500
Cumulative effect of a change in accounting principle	35	(68)	13	9	–	2	(9)
Balance at January 1, 2023	$ 69	$ 779	$ 606	$ 22	$ –	$ 15	$ 1,491
Provision for unfunded commitments	2	(66)	10	(2)	–	(1)	(57)
Balance at March 31, 2023	$ 71	$ 713	$ 616	$ 20	$ –	$ 14	$ 1,434
Total allowance for credit losses	$ 8,613	$ 7,382	$ 2,582	$ 165	$ 253	$ 89	$ 19,084
Allowance for Loan Losses*:							
Balance at December 31, 2021	$ 12,282	$ 15,941	$ 1,691	$ 66	$ 278	$ 22	$ 30,280
Charge-offs	–	–	–	–	–	–	–
Recoveries	–	4	–	–	–	–	4
Provision for loan losses	(979)	(3,492)	(497)	–	(31)	(1)	(5,000)
Balance at March 31, 2022	$ 11,303	$ 12,453	$ 1,194	$ 66	$ 247	$ 21	$ 25,284

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

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

Loans held for sale were $0 and $22 at March 31, 2023 and December 31, 2022, respectively. Such loans are carried at the lower of cost or fair value.

Troubled Debt Restructurings

Prior to the adoption of updated FASB guidance on loan modifications on January 1, 2023, a restructuring of a loan constituted a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program, were borrower-specific, and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a TDR, these loans were included within impaired loans under nonaccrual or accruing restructured loans.

The following table presents additional information regarding troubled debt restructurings that occurred during the period:

	Three Months Ended March 31, 2022*				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 506	$ –	$ 506	
Production and intermediate-term	–	695	–	695	
Total	$ –	$ 1,201	$ –	$ 1,201	
Post-modification:					
Real estate mortgage	$ –	$ 540	$ –	$ 540	$ –
Production and intermediate-term	–	697	–	697	–
Total	$ –	$ 1,237	$ –	$ 1,237	$ –

**Prior to adoption of CECL on January 1, 2023, loans were presented with accrued interest receivable.*

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the three months ended March 31, 2022. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended March 31, 2022*
Defaulted troubled debt restructurings:	
Real estate mortgage	$ 244
Rural residential real estate	89
Total	$ 333

**Prior to adoption of CECL on January 1, 2023, loans were presented with accrued interest receivable.*

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

	December 31, 2022	
	Total TDRs	Nonaccrual TDRs
Real estate mortgage	$ 29,761	$ 11,481
Production and intermediate-term	5,736	2,182
Agribusiness	101	–
Rural residential real estate	590	135
Total loans	$ 36,188	$ 13,798
Additional commitments to lend	$ 80	

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 18.72 percent of the issued stock and allocated retained earnings of the Bank as of March 31, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled $42.6 billion and shareholders' equity totaled $1.6 billion. The Bank's earnings were $70 million for the first three months of 2023. In addition, the Association held investments of $3,278 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component *(a)*	
	Three Months Ended March 31,	
	2023	2022
Employee Benefit Plans:		
Balance at beginning of period	$ (98)	$ (435)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	–	4
Net current period other comprehensive income	–	4
Balance at end of period	$ (98)	$ (431)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*		
	Three Months Ended March 31,		
	2023	2022	Income Statement Line Item
Defined Benefit Pension Plans:			
Periodic pension costs	$ –	$ (4)	See Note 7.
Net amounts reclassified	$ –	$ (4)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	March 31, 2023			
	Fair Value Measurement Using			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Recurring assets				
Assets held in trust funds	$ 3,197	$ –	$ –	$ 3,217
Nonrecurring assets				
Impaired loans*	$ –	$ –	$ 10,777	$ 10,777
Other property owned	$ –	$ –	$ 1,067	$ 1,067

	December 31, 2022			
	Fair Value Measurement Using			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Recurring assets				
Assets held in trust funds	$ 3,197	$ –	$ –	$ 3,197
Nonrecurring assets				
Impaired loans*	$ –	$ –	$ 10,051	$ 10,051
Other property owned	$ –	$ –	$ 1,217	$ 1,217

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

Valuation Techniques

Assets held in trust funds

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

Nonaccrual loans

Fair values of nonaccrual loans are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

Other property owned

For other property owned, the fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. If the process uses observable market-based information, the assets are classified as Level 2. If the process requires significant input based upon management’s knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, the assets are classified as Level 3.

Note 7 — Employee Benefit Plans

The following is a table of retirement and other postretirement benefit expenses for the Association:

	Three Months Ended March 31,	
	2023	2022
Pension	$ 777	$ 714
401(k)	889	390
Other postretirement benefits	288	143
Total	$ 1,954	$ 1,247

Expenses in the above table are computed using allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2023.

Further details regarding employee benefit plans are contained in the 2022 Annual Report to Shareholders.

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is remote that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Merger Activity

Effective July 1, 2022, AgChoice merged into MidAtlantic to form Horizon Farm Credit, ACA. The effects of the merger are included in the Association's results of operations, statement of condition, average balances, and related metrics beginning July 1, 2022.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of March 31, 2023 and December 31, 2022. The Consolidated Statements of Income and Members' Equity reflect the results of MidAtlantic prior to July 1, 2022, and the merged Association after July 1, 2022. Information in the Notes to the Consolidated Financial Statements reflects balances of the merged Association as of March 31, 2023 and December 31, 2022, and in the case of transactional activity, reflects MidAtlantic prior to July 1, 2022 and the merged Association after July 1, 2022.

For further information, see Note 14, *Merger Activity*, in the Notes to the Consolidated Financial Statements of the 2022 Annual Report.

Note 10 — Subsequent Events

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