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*Farm Credit of Florida, ACA*

# THIRD QUARTER 2023

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## CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2023 quarterly report of Farm Credit of Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

/s/ Marcus A. Boone  
Chief Executive Officer

/s/ Laura Craker  
Chief Financial Officer

/s/ Bobby G. Lines  
Chairman of the Board

November 8, 2023

# 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 Consolidate 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 September 30, 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 September 30, 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 September 30, 2023.

/s/ Marcus A. Boone  
Chief Executive Officer

/s/ Laura Craker  
Chief Financial Officer

November 8, 2023

# 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 Farm Credit of Florida, ACA, (Association) for the period ended September 30, 2023. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2022 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

The Association obtains funding through a borrowing relationship with AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected by the financial condition and results of operations of the Bank.

## **LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners, farm-related businesses, and other agribusiness firms for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in the northern and southern regions of Florida. The commodities include but are not limited to cattle, citrus, dairy, equine, field crops, nurseries, sugar, timber, tropical fruits, and vegetables.

On September 28<sup>th</sup>, Hurricane Ian made landfall near Cayo Costa in Southwest Florida as a strong Category 4 Hurricane. Ian thrashed parts of Florida's western coast, bringing intense winds, heavy rainfall, and catastrophic storm surges. The path of the hurricane took it across the peninsula traveling through central Florida. Due to the large size of Ian, all of the Association's territory was impacted by the storm in some degree with the southwest region being the most severe. Final reports indicate catastrophic levels of flooding and wind damage to crops, livestock, structures, and infrastructure throughout Florida especially in the Citrus industry. Roughly 4.8 million acres of agricultural land was impacted with a crop value of nearly \$8 Billion. The most noted impact is a significant loss of the 2022-23 citrus crop. Other agricultural industry segments reporting negative impacts include dairy, cattle, south field crops and some northern fern operations. To date, the financial impact this storm had on our customers and the Association has generally been modest, with dairy and citrus farmers in Southwest Florida suffering the greatest losses. Many winter vegetable growers, who had just planted prior to the storm, were able to replant, causing only a short delay in harvest, albeit at a higher cost due to planting twice. Some credit quality deterioration and modest credit losses were experienced.

Hurricane Idalia landed on Keaton Beach, Florida on the morning of August 30 as a Category 3 storm, bringing high winds and rain to the coastal regions along the western peninsula and inland agricultural counties. The primary area impacted is the Big Bend area and 3 million acres of surrounding agricultural land, which is primarily used for the grazing. Commodities mostly impacted are Timber, Poultry, Dairy and Cattle. Timber was severely impacted in certain areas with up to 80% of hardwoods down. Poultry had structural damage to poultry houses with metal roofs. Dairy was impacted by power outages. FEMA declared a disaster in 16 counties with Madison, Hamilton, Suwanee and Lafayette suffering the greatest impact.

The Association is still assessing the impact of the storm on our borrowers. However, at this time, it appears there is not a material adverse impact to our overall portfolio. Loss reduction options that are available for some of our customers, such as the use of loan guarantees, crop insurance, and federal disaster relief, have helped mitigate the losses associated with these storm events. The Association is well capitalized and maintains adequate allowance for credit losses, which allows us to withstand stress in our loan portfolio.

Supply constraints and robust consumer demand have led to marked increases in the prices of many goods and services, pushing the all items CPI inflation rate up to 3.7% for the 12 months ending August 2023, which was one of the smallest 12-month increases since the period ending March 2021. Over the last 12 months, the all items less food and energy index rose 4.3%, the energy index decreased 3.6% while the food index increased 4.3%. Bottlenecks remain across supply chains and consumer goods inflation has rocketed to a 40+ year high as a result, clearly outpacing average consumer wage gains. Also, Russia's invasion of Ukraine has made supply problems and inflation worse. Notwithstanding, the Florida unemployment rate was 2.7% at the end of August 2023, comparing

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favorably to the national average of 3.8% which is back down to the level when Florida's economy entered the pandemic with an unemployment rate of 2.7%. Florida's unemployment rate has rebounded after exceeding 14% earlier in 2020. Despite the improvement, management will monitor any potential lingering impacts on its borrowers and loan portfolio as some credit quality deterioration and credit losses may occur. The Association is well capitalized and maintains an adequate allowance for credit losses allowing us to withstand stress in our loan portfolio.

Most commodity groups within the portfolio have experienced generally favorable operating results over the last two production seasons; however, citrus producers remain impacted by citrus greening disease and now the impact of Hurricane Ian. The various challenges from citrus greening disease have caused reduced production and declines in overall profitability for most producers. The final 2022-2023 USDA production report indicates a 62% decrease in production for the 2022-2023 citrus crop, following a 22% decline the previous season. Of the estimated \$1.035 Billion of expected agricultural losses from Hurricane Ian, 23.9% is in citrus. Despite these factors, the Association's citrus portfolio has continued to perform satisfactorily with performance issues isolated to only a few stressed growers. The dairy industry has also remained under stress due to supply and demand dynamics, as well as high feed and fuel costs. Most of the Association's dairy loans are to the fluid milk producers who had experienced depressed commodity prices for several years. While price has improved significantly, approaching all-time highs for many producers, increasing operating costs has kept most producers below profitable levels.

The horticultural or nursery segment remains satisfactory as residential construction and the overall housing market continues to see ongoing demand. 2022 was weaker than expected, due to rising interest rates combined with stubbornly high housing prices as well as discretionary consumer spending being diverted to travel, sports and entertainment. The expectation for 2023 is that growth will return to pre-Covid 2019 levels. The forestry industry has also experienced favorable conditions backed by strong packaging and housing, including renovation and repair markets, although global trade remains a concern. The beef cattle industry has worked through a backlog of supply lingering from the pandemic and early slaughter from drought conditions in 2022. With smaller herd sizes and ongoing strong demand, prices are rebounding at faster rates in 2023 as rising feed and transportation costs moderate.

Farm size varies throughout the regions and many borrowers have diversified farming operations. This factor, along with numerous opportunities for non-farm income in the territory, reduces the level of repayment dependency on a single agricultural commodity. Land values in the north region continue to exhibit stability since their improvement in 2014 with some areas increasing in value. Land values in the south region show stability with values increasing in more urban areas. Overall, land value sale surveys indicate land values are stable with increasing trends seen in certain segments.

The gross loan volume of the Association as of September 30, 2023, was \$1,555,648, an increase of \$43,927 or 2.91 percent as compared to \$1,511,721 at December 31, 2022. Net loans outstanding as of September 30, 2023, were \$1,543,697 as compared to \$1,503,036 as of December 31, 2022, an increase of \$40,661 or 2.71 percent. Net loans accounted for 95.16 percent of total assets at September 30, 2023, as compared to 96.85 percent of total assets at December 31, 2022. The increase in both gross and net loan volume during the period is primarily attributed to increased demand for credit in the market and a concerted marketing effort by Association lenders.

Competition continues to be strong in the large loan segment. Activity in small and middle market loans in the north region continues to be strong as well. Management has noted loan demand remains stable year to date 2023 in both the originated and the participations purchased loan portfolio, although real estate sales have shown some softening while continuing to reflect a high number of cash transactions reducing potential financing opportunities.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality improved compared to year end 2022 as a result of a decline in substandard loans along with growth in acceptable loans and an increase in OAEM loans. The primary decrease in substandard loans is due to liquidations primarily in the other (fish) commodity group. The primary increase in OAEM loans is downgrades from acceptable mostly in the dairy industry. Acceptable and OAEM credit quality, as a percentage of the total loan portfolio, was 98.83 percent as of September 30, 2023, compared to 98.45 percent on December 31, 2022.

During the nine months of 2023, nonaccrual loans increased by \$9,527 or 812.19 percent to \$10,700 at September 30, 2023, from \$1,173 at December 31, 2022. The increase in nonaccrual loans is attributed to transfers to nonaccrual primarily in the tree fruits and nuts commodity group. On September 30, 2023, there were no properties in other property owned. Two pieces of equipment were acquired and sold during the nine months of 2023. Therefore, other property owned at September 30, 2023, remained at a zero balance since December 31, 2022.

The Association adopted the 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

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losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. The impact of adoption was a net decrease to the allowance and an increase to retained earnings of \$452. See Note 1 – *Accounting Standards Effective During the Period* for additional information.

The allowance for loan losses at September 30, 2023, was \$11,951 compared to \$8,685 at December 31, 2022. This increase is due to higher reserves required on loans individually evaluated in the tree fruits and nuts commodity group offset by lower reserves required on loans collectively evaluated from improvement in credit quality during the period. Recoveries of \$288 recorded during the nine months ended September 30, 2023 were primarily in the non-farm income category and charge-offs of \$229 were mostly in the field crops category. Management considers the current level of allowance adequate to cover expected credit losses over the remaining life of the loan. The ratio of the allowance for loan losses to gross loans on September 30, 2023 was 0.77 percent.

## **RESULTS OF OPERATIONS**

### ***For the three months ended September 30, 2023***

The Association recorded net income for the three months ended September 30, 2023, of \$7,755 as compared to \$8,211 for the same period in 2022. This \$456 or 5.55 percent decrease is primarily attributed to an increase in the provision for allowance for credit losses.

Provision for allowance for credit losses was \$942 for the three months ended September 30, 2023, as compared to a reversal of allowance for credit losses of \$975 during the same period in 2022, an increase in expense of \$1,917 or 196.62 percent. The increase in expense is attributed to higher reserves required on loans individually evaluated primarily in the tree fruits and nuts commodity group and a decline in net loan recoveries compared to prior year. Net loan recoveries were \$28 during the three months ended September 30, 2023, compared to net loan recoveries of \$459 for the same period in 2022, a decrease in net loan recoveries of \$431.

Net interest income for the three months ended September 30, 2023, totaled \$11,476 as compared to \$9,777 for the same period of 2022, an increase of \$1,699 or 17.38 percent. This increase is attributed to higher interest on loan volume growth over the last 12 months and higher interest income on variable rate loans resulting from increasing of the target range for the federal funds rate by the Federal Reserve during 2022.

Noninterest income for the three months ended September 30, 2023, totaled \$4,082 as compared to \$3,818 for the same period of 2022, an increase of \$264 or 6.91 percent. This increase is attributed primarily to an increase in patronage refunds from other Farm Credit institutions.

Noninterest expense for the three months ended September 30, 2023, totaled \$6,861 as compared to \$6,359 for the same period of 2022, an increase of \$502 or 7.89 percent. The primary reason for the increase is attributed to an increase in salaries and employee benefits due to an increase in the number of employees along with an increase in other operating expenses.

### ***For the nine months ended September 30, 2023***

Net income for the nine months ended September 30, 2023 totaled \$21,505 compared to \$22,900 for the same period in 2022, a decrease of \$1,395 or 6.09 percent. The decrease is primarily attributed to an increase in the provision for allowance for credit losses.

Provision for allowance for credit losses was \$3,996 for the nine months ended September 30, 2023 as compared to a reversal of allowance for credit losses of \$1,239 during the same period in 2022, an increase in expense of \$5,235 or 422.52 percent. The increase in expense is attributed to higher reserves required on loans individually evaluated primarily in the tree fruits and nuts commodity group and a decline in net loan recoveries compared to prior year offset by lower reserves required on loans collectively evaluated from improvement in credit quality during the period. Net loan recoveries were \$59 during the nine months ended September 30, 2023 compared to net loan recoveries of \$526 for the same period in 2022, a decrease in net loan recoveries of \$467.

Net interest income was \$34,061 for the nine months ended September 30, 2023 as compared to \$29,242 during the same period in 2022. The change in net interest income represents a \$4,819 or 16.48 percent increase when compared to the same period last year and is attributed to higher interest from loan volume growth over the last 12 months and higher interest income on variable rate loans resulting from increasing of the target range for the federal funds rate by the Federal Reserve during 2022 offset by lower interest recoveries received on nonaccrual loans.

Noninterest income for the nine months ended September 30, 2023, totaled \$12,341 as compared to \$11,647 for the same period of 2022, an increase of \$694 or 5.96 percent. This increase is attributed primarily to increases in patronage refunds from other Farm Credit institutions and gains on other transactions. Increases were offset by decreases in loan fees and other noninterest income.

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Noninterest expense for the nine months ended September 30, 2023, totaled \$20,901 as compared to \$19,228 for the same period of 2022, an increase of \$1,673 or 8.70 percent. The primary reason for the increase is attributed to \$1,135 increase in salaries and employee benefits due to an increase in the number of employees.

## **LIQUIDITY AND FUNDING SOURCES**

### *Liquidity*

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses, and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

### *Funding Sources*

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. These funds are advanced by the Bank to the Association in the form of notes payable. The notes payable is segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association.

The total notes payable to the Bank at September 30, 2023 was \$1,240,773 as compared to \$1,178,379 at December 31, 2022. The increase during the period of \$62,394 is primarily attributed to an increase in loan volume during the period offset by an increase in members' equity resulting from net income for the nine months ended September 30, 2023 and receipt of 2022 patronage dividends due from AgFirst Farm Credit Bank.

The Association had no lines of credit outstanding with third parties as of September 30, 2023.

### *Funds Management*

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the Secured Overnight Financing Rate (SOFR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

Most of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

## **CAPITAL RESOURCES**

Total members' equity on September 30, 2023, increased to \$359,430 from the December 31, 2022 total of \$337,495. The increase is primarily attributed to net income during the period.

Total capital stock and participation certificates were \$2,856 on September 30, 2023, compared to \$2,882 on December 31, 2022. The decrease is attributed to retirement of capital stock on loans liquidated in the ordinary course of business.

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## Regulatory Capital Ratios

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

	<b>Regulatory Minimum, Including Buffer*</b>	<b>9/30/2023</b>	<b>12/31/2022</b>	<b>9/30/2022</b>
Common Equity Tier 1 (CET1) Capital Ratio	7.0%	18.89%	19.16%	19.77%
Tier 1 Capital Ratio	8.5%	18.89%	19.16%	19.77%
Total Capital Ratio	10.5%	19.56%	19.69%	20.35%
Permanent Capital Ratio	7.0%	19.01%	19.26%	19.88%
Tier 1 Leverage Ratio*	5.0%	21.54%	21.83%	22.34%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.5%	17.70%	17.86%	18.22%

\* The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. 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. The requirements are based on regulatory ratios as defined by the FCA and include common equity tier 1 (CET1), tier 1, total capital, permanent capital, tier 1 leverage, and unallocated retained earnings (URE) and URE equivalents leverage ratios.

The permanent capital, CET1, tier 1, and total capital ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by a risk-adjusted asset base. Unlike these ratios, the tier 1 leverage and URE and URE equivalents leverage ratios do not incorporate any risk-adjusted weighting of assets. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. The tier 1 leverage and URE and URE equivalents leverage ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions.

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. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios.

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

## REGULATORY MATTERS

On October 12, 2023, the Farm Credit Administration approved a final rule governing the Farm Credit System's service to young, beginning, and small (YBS) farmers and ranchers. The rule requires banks that fund the direct-lender associations to annually review and approve the association YBS programs. The rule also requires direct-lender associations to enhance the strategic plan of its YBS program. The strategic plan must contain specific elements that will be evaluated as part of a rating system to measure year-over-year internal progress, which would allow the Farm Credit Administration to compare the success of the direct-lender' association's YBS program. The final rule becomes effective on February 1, 2024.

On October 5, 2023, the Farm Credit Administration approved a final rule on cyber risk management that requires each System institution to develop and implement a comprehensive, written cyber risk management program. Each institution's cyber risk plan must require the institution to take the actions to assess internal and external risk factors, identify potential system and software vulnerabilities, establish a risk management program for the risks identified, develop a cyber risk training program, set policies for managing third-party relationships, maintain robust internal controls and establish board reporting requirements. The final rule will become effective on January 1, 2025.

On April 14, 2022, the FCA approved a final rule that amends certain regulations to address changes in accounting principles generally accepted in the United States. Such changes reflect the Current Expected Credit Losses (CECL) methodology that replaced the incurred loss methodology upon adoption. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities are included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets are not eligible for inclusion in a System

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institution's Tier 2 capital. The regulation did not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. In addition, the regulation did not include an exclusion for the CECL day 1 cumulative effective adjustment from the "safe harbor" deemed prior approval provision for distributions. The rule became effective on January 1, 2023.

On August 26, 2021, the FCA issued a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the increased risk posed by HVCRE exposures. The public comment period ended on January 24, 2022.

### ***LIBOR Transition***

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

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

Prior to the discontinuance of LIBOR, the Bank and Associations exposure to LIBOR arose from loans made to customers, investment securities purchased, and Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf. To the extent necessary, substantially all financial instruments that referenced LIBOR were amended to incorporate adequate fallbacks, including, where appropriate, the Secured Overnight Finance Rate (SOFR)-based fallbacks recommended by the Alternative Reference Rates Committee (ARRC).

To the extent that any Association contracts were not amended to include adequate fallback provisions to replace LIBOR, such contracts were amended by operation of law under the federal Adjustable Interest Rate (LIBOR) Act and rules thereunder to include a statutorily designated fallback to LIBOR. Under the Federal Reserve Board's rule implementing certain provisions of the LIBOR Act (Regulation ZZ), on the LIBOR replacement date (the first London banking day after June 30, 2023), the Federal Reserve Board-selected benchmark replacement, based on the SOFR and including any tenor spread adjustment as provided by Regulation ZZ, automatically replaced references to overnight, one, three, six, and twelve month LIBOR in all remaining contracts that did not mature before the LIBOR replacement date and did not contain adequate fallback language.

The Associations' variable-rate financial instruments outstanding with LIBOR exposure as of September 30, 2023 equaled 0.59% of total Association assets.

### **OTHER MATTERS**

On October 27, 2023 the AgFirst Board of Directors approved an increase to the Association Investment in AgFirst from 1.00 percent to 1.50 percent effective October 31, 2023. This resulted in an increase in the equity investment in AgFirst of \$7.1 million to \$24.9 million.

### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2022 Annual Report to Shareholders for recently adopted accounting pronouncements.

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

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**Note:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request, free of charge, by calling (561)-965-9001, or writing Laura Craker, CFO, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421, or accessing the website, [www.farmcreditfl.com](http://www.farmcreditfl.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.



# Farm Credit of Florida, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2023 <i>(unaudited)</i>	December 31, 2022 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 15	\$ 16
Investments in debt securities:		
Held to maturity (fair value of \$1,930 and \$2,119, respectively)	1,892	2,040
Loans	1,555,648	1,511,721
Allowance for loan losses	(11,951)	(8,685)
Net loans	1,543,697	1,503,036
Loans held for sale	19	17
Accrued interest receivable	9,383	8,427
Equity investments in other Farm Credit institutions	19,214	19,286
Premises and equipment, net	7,803	7,926
Accounts receivable	38,464	9,893
Other assets	1,699	1,340
Total assets	<b>\$ 1,622,186</b>	<b>\$ 1,551,981</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,240,773	\$ 1,178,379
Accrued interest payable	4,499	3,808
Patronage refunds payable	228	16,819
Accounts payable	5,357	5,538
Advanced conditional payments	4,850	2,405
Other liabilities	7,049	7,537
Total liabilities	<b>1,262,756</b>	<b>1,214,486</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Protected borrower stock	445	445
Capital stock and participation certificates	2,411	2,437
Additional paid-in-capital	7,873	7,873
Retained earnings		
Allocated	141,829	141,579
Unallocated	207,007	185,301
Accumulated other comprehensive income (loss)	(135)	(140)
Total members' equity	<b>359,430</b>	<b>337,495</b>
Total liabilities and members' equity	<b>\$ 1,622,186</b>	<b>\$ 1,551,981</b>

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

**Farm Credit of Florida, ACA**  
**Consolidated Statements of**  
**Comprehensive Income**

*(unaudited)*

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Interest Income</b>				
Loans	\$ 24,982	\$ 18,352	\$ 72,852	\$ 50,839
Investments	28	30	91	83
Total interest income	<b>25,010</b>	18,382	<b>72,943</b>	50,922
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	<b>13,534</b>	8,605	<b>38,882</b>	21,680
Net interest income	<b>11,476</b>	9,777	<b>34,061</b>	29,242
Provision for (reversal of) allowance for credit losses	<b>942</b>	(975)	<b>3,996</b>	(1,239)
Net interest income after provision for (reversal of) allowance for credit losses	<b>10,534</b>	10,752	<b>30,065</b>	30,481
<b>Noninterest Income</b>				
Loan fees	259	308	811	1,021
Fees for financially related services	975	988	3,032	2,946
Patronage refunds from other Farm Credit institutions	2,732	2,414	8,213	7,189
Gains (losses) on sales of rural home loans, net	43	66	147	363
Gains (losses) on sales of premises and equipment, net	6	1	9	3
Gains (losses) on other transactions	36	(48)	48	(185)
Other noninterest income	31	89	81	310
Total noninterest income	<b>4,082</b>	3,818	<b>12,341</b>	11,647
<b>Noninterest Expense</b>				
Salaries and employee benefits	4,657	4,454	14,488	13,353
Occupancy and equipment	341	309	992	920
Insurance Fund premiums	532	541	1,605	1,600
Purchased services	256	162	716	532
Data processing	39	44	135	109
Other operating expenses	1,035	849	2,996	2,714
(Gains) losses on other property owned, net	1	—	(31)	—
Total noninterest expense	<b>6,861</b>	6,359	<b>20,901</b>	19,228
<b>Net income</b>	<b>\$ 7,755</b>	\$ 8,211	<b>\$ 21,505</b>	\$ 22,900
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments	2	3	5	10
<b>Comprehensive income</b>	<b>\$ 7,757</b>	\$ 8,214	<b>\$ 21,510</b>	\$ 22,910

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

**Farm Credit of Florida, ACA**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
				Allocated	Unallocated		
Balance at December 31, 2021	\$ 445	\$ 2,968	\$ 7,873	\$ 135,975	\$ 172,785	\$ (239)	\$ 319,807
Comprehensive income					22,900	10	22,910
Capital stock/participation certificates issued/(retired), net		(487)					(487)
Patronage distribution adjustment				567	(569)		(2)
Balance at September 30, 2022	\$ 445	\$ 2,481	\$ 7,873	\$ 136,542	\$ 195,116	\$ (229)	\$ 342,228
Balance at December 31, 2022	\$ 445	\$ 2,437	\$ 7,873	\$ 141,579	\$ 185,301	\$ (140)	\$ 337,495
Cumulative effect of change in accounting principle					452		452
Comprehensive income					21,505	5	21,510
Capital stock/participation certificates issued/(retired), net		(26)					(26)
Patronage distribution adjustment				250	(251)		(1)
Balance at September 30, 2023	\$ 445	\$ 2,411	\$ 7,873	\$ 141,829	\$ 207,007	\$ (135)	\$ 359,430

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

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

### ***Basis of Presentation***

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

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

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

### ***Significant Accounting Policies***

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

Management has made significant estimates in several areas, including loans and allowance for credit losses (Note 2, *Loans and Allowance for Credit Losses*) and financial instruments (Note 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 credit losses on January 1, 2023. This guidance replaced the current incurred loss impairment methodology with a single allowance framework for financial assets that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that consider macroeconomic conditions. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance for credit losses related to these securities, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves.

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

disclosure of current period gross write-offs by year of origination for financing receivables and net investments in leases on a prospective basis.

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

	<b>December 31, 2022</b>	<b>CECL Adoption Impact</b>	<b>January 1, 2023</b>
<b>Assets:</b>			
Allowance for loan losses	\$ 8,685	\$ (790)	\$ 7,895
<b>Liabilities:</b>			
Allowance for credit losses on unfunded commitments	\$ 509	\$ 338	\$ 847
<b>Retained earnings:</b>			
Unallocated retained earnings	\$ 185,301	\$ 452	\$ 185,753

As more fully described in the 2022 Annual Report, the Association may hold additional investments in accordance with other investment programs approved by the Farm Credit Administration (FCA). These programs allow the institution to make investments that further the mission to support rural America. Upon adoption of CECL guidance, the investments held-to-maturity are presented net of an allowance for credit losses on investments. As part of the Association's implementation of the standard, it was determined that there would not be a material impact to the Association's investment portfolio and as a result, there was no ACL on investments recorded.

#### *Loans and Allowance for Credit Losses*

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

#### *Nonaccrual Loans*

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

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

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

#### *Accrued Interest Receivable*

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

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### *Loan Modifications to Borrowers Experiencing Financial Difficulty*

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

### *Collateral Dependent Loans*

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

### *Allowance for Credit Losses*

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

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

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

### *Methodology for Allowance for Credit Losses on Loans*

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

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

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

In estimating the component of the allowance for loan losses that relates to loans that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant risk characteristics include loan type, commodity, credit quality rating, delinquency category or business segment or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by

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considering the probability of default, based on the migration of loans from performing to loss by credit quality rating or delinquency buckets using historical life-of-loan analysis periods for loan types, and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

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

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

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

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

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

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

#### *Allowance for Credit Losses on Unfunded Commitments*

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

**Note 2 — Loans and Allowance for Credit Losses**

A summary of loans outstanding at period end follows:

	September 30, 2023	December 31, 2022
Real estate mortgage	\$ 853,925	\$ 837,985
Production and intermediate-term	232,202	267,703
Agribusiness:		
Loans to cooperatives	33,218	27,967
Processing and marketing	200,322	182,691
Farm-related business	41,413	47,439
Rural infrastructure:		
Communication	78,289	70,372
Power and water/waste disposal	71,275	36,927
Rural residential real estate	21,698	20,339
Other:		
International	18,673	15,376
Other (including Mission Related)	4,633	4,922
<b>Total loans</b>	<b>\$ 1,555,648</b>	<b>\$ 1,511,721</b>

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 FCA regulations. The following tables present the principal balance of participation loans at periods ended:

	September 30, 2023							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 29,480	\$ 136,134	\$ 133	\$ –	\$ –	\$ –	\$ 29,613	\$ 136,134
Production and intermediate-term	86,000	27,603	1,469	18,329	73	–	87,542	45,932
Agribusiness	202,991	61,894	1,507	63,841	556	–	205,054	125,735
Rural infrastructure	149,912	–	–	–	–	–	149,912	–
Other	18,727	–	–	–	2,613	–	21,340	–
<b>Total</b>	<b>\$ 487,110</b>	<b>\$ 225,631</b>	<b>\$ 3,109</b>	<b>\$ 82,170</b>	<b>\$ 3,242</b>	<b>\$ –</b>	<b>\$ 493,461</b>	<b>\$ 307,801</b>

	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	\$ 30,997	\$ 165,269	\$ 408	\$ –	\$ –	\$ –	\$ 31,405	\$ 165,269
Production and intermediate-term	72,016	18,262	1,936	192	2,287	–	76,239	18,454
Agribusiness	185,597	92,952	2,689	86,817	730	–	189,016	179,769
Rural infrastructure	107,453	–	–	–	–	–	107,453	–
Other	15,410	–	–	–	2,801	–	18,211	–
<b>Total</b>	<b>\$ 411,473</b>	<b>\$ 276,483</b>	<b>\$ 5,033</b>	<b>\$ 87,009</b>	<b>\$ 5,818</b>	<b>\$ –</b>	<b>\$ 422,324</b>	<b>\$ 363,492</b>



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

	September 30, 2023	December 31, 2022*
<b>Real estate mortgage:</b>		
Acceptable	97.74%	97.40%
OAEM	1.26	1.77
Substandard/doubtful/loss	1.00	0.83
	100.00%	100.00%
<b>Production and intermediate-term:</b>		
Acceptable	94.70%	91.70%
OAEM	1.31	2.28
Substandard/doubtful/loss	3.99	6.02
	100.00%	100.00%
<b>Agribusiness:</b>		
Acceptable	95.20%	98.60%
OAEM	4.69	1.28
Substandard/doubtful/loss	0.11	0.12
	100.00%	100.00%
<b>Rural infrastructure:</b>		
Acceptable	97.86%	100.00%
OAEM	2.14	-
Substandard/doubtful/loss	-	-
	100.00%	100.00%
<b>Rural residential real estate:</b>		
Acceptable	99.61%	99.84%
OAEM	0.02	0.10
Substandard/doubtful/loss	0.37	0.06
	100.00%	100.00%
<b>Other:</b>		
Acceptable	100.00%	100.00%
OAEM	-	-
Substandard/doubtful/loss	-	-
	100.00%	100.00%
<b>Total loans:</b>		
Acceptable	96.91%	96.84%
OAEM	1.92	1.61
Substandard/doubtful/loss	1.17	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 \$9,343 and \$8,406 at September 30, 2023 and December 31, 2022, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

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

	September 30, 2023					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
Real estate mortgage	\$ 3,833	\$ -	\$ 3,833	\$ 850,092	\$ 853,925	\$ -
Production and intermediate-term	632	715	1,347	230,855	232,202	-
Agribusiness	-	-	-	274,953	274,953	-
Rural infrastructure	-	-	-	149,564	149,564	-
Rural residential real estate	-	80	80	21,618	21,698	-
Other	-	-	-	23,306	23,306	-
Total	\$ 4,465	\$ 795	\$ 5,260	\$ 1,550,388	\$ 1,555,648	\$ -

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

	<b>December 31, 2022</b>					
	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>	<b>90 Days or More Past Due and Accruing</b>
Real estate mortgage	\$ 2,728	\$ —	\$ 2,728	\$ 840,346	\$ 843,074	\$ —
Production and intermediate-term	719	—	719	268,634	269,353	—
Agribusiness	—	—	—	259,377	259,377	—
Rural infrastructure	—	—	—	107,414	107,414	—
Rural residential real estate	13	—	13	20,387	20,400	—
Other	—	—	—	20,509	20,509	—
Total	<u>\$ 3,460</u>	<u>\$ —</u>	<u>\$ 3,460</u>	<u>\$ 1,516,667</u>	<u>\$ 1,520,127</u>	<u>\$ —</u>

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

	<b>September 30, 2023</b>
<b>Nonaccrual loans:</b>	
Real estate mortgage	\$ 1,628
Production and intermediate-term	8,770
Agribusiness	222
Rural residential real estate	80
Total	<u>\$ 10,700</u>
<b>Accruing loans 90 days or more past due:</b>	
Total	<u>\$ —</u>
Total nonperforming loans	\$ 10,700
Other property owned	—
Total nonperforming assets	<u>\$ 10,700</u>
Nonaccrual loans as a percentage of total loans	0.69%
Nonperforming assets as a percentage of total loans and other property owned	0.69%
Nonperforming assets as a percentage of capital	<u>2.98%</u>

	<b>December 31, 2022*</b>
<b>Nonaccrual loans:</b>	
Real estate mortgage	\$ 429
Production and intermediate-term	510
Agribusiness	234
Total	<u>\$ 1,173</u>
<b>Accruing restructured loans:</b>	
Real estate mortgage	\$ 258
Total	<u>\$ 258</u>
<b>Accruing loans 90 days or more past due:</b>	
Total	<u>\$ —</u>
Total nonperforming loans	\$ 1,431
Other property owned	—
Total nonperforming assets	<u>\$ 1,431</u>
Nonaccrual loans as a percentage of total loans	0.08%
Nonperforming assets as a percentage of total loans and other property owned	0.09%
Nonperforming assets as a percentage of capital	<u>0.42%</u>

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

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

Nonaccrual loans:	September 30, 2023			Interest Income Recognized on Nonaccrual Loans	
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
Real estate mortgage	\$ –	\$ 1,628	\$ 1,628	\$ 29	\$ 90
Production and intermediate-term	8,084	686	8,770	155	485
Agribusiness	–	222	222	4	12
Rural residential real estate	–	80	80	1	5
Total	\$ 8,084	\$ 2,616	\$ 10,700	\$ 189	\$ 592

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
<b>Allowance for Loan Losses:</b>							
Balance at June 30, 2023	\$ 4,235	\$ 5,299	\$ 1,100	\$ 242	\$ 99	\$ 16	\$ 10,991
Charge-offs	–	(109)	–	–	–	–	(109)
Recoveries	12	106	–	–	19	–	137
Provision for loan losses	196	702	–	39	(4)	(1)	932
Balance at September 30, 2023	\$ 4,443	\$ 5,998	\$ 1,100	\$ 281	\$ 114	\$ 15	\$ 11,951
<b>Allowance for Unfunded Commitments:</b>							
Balance at June 30, 2023	\$ 61	\$ 423	\$ 310	\$ 30	\$ –	\$ 12	\$ 836
Provision for unfunded commitments	(13)	29	(5)	(1)	–	–	10
Balance at September 30, 2023	\$ 48	\$ 452	\$ 305	\$ 29	\$ –	\$ 12	\$ 846
<b>Total allowance for credit losses</b>	\$ 4,491	\$ 6,450	\$ 1,405	\$ 310	\$ 114	\$ 27	\$ 12,797
<b>Allowance for Loan Losses:</b>							
Balance at December 31, 2022	\$ 2,936	\$ 3,883	\$ 1,520	\$ 265	\$ 69	\$ 12	\$ 8,685
Cumulative effect of a change in accounting principle	2,006	(2,443)	(359)	(32)	33	5	(790)
Balance at January 1, 2023	\$ 4,942	\$ 1,440	\$ 1,161	\$ 233	\$ 102	\$ 17	\$ 7,895
Charge-offs	–	(229)	–	–	–	–	(229)
Recoveries	54	211	–	–	23	–	288
Provision for loan losses	(553)	4,576	(61)	48	(11)	(2)	3,997
Balance at September 30, 2023	\$ 4,443	\$ 5,998	\$ 1,100	\$ 281	\$ 114	\$ 15	\$ 11,951
<b>Allowance for Unfunded Commitments:</b>							
Balance at December 31, 2022	\$ 30	\$ 287	\$ 180	\$ 9	\$ –	\$ 3	\$ 509
Cumulative effect of a change in accounting principle	83	40	158	49	–	8	338
Balance at January 1, 2023	\$ 113	\$ 327	\$ 338	\$ 58	\$ –	\$ 11	\$ 847
Provision for unfunded commitments	(65)	125	(33)	(29)	–	1	(1)
Balance at September 30, 2023	\$ 48	\$ 452	\$ 305	\$ 29	\$ –	\$ 12	\$ 846
<b>Total allowance for credit losses</b>	\$ 4,491	\$ 6,450	\$ 1,405	\$ 310	\$ 114	\$ 27	\$ 12,797
<b>Allowance for Loan Losses*:</b>							
Balance at June 30, 2022	\$ 2,858	\$ 4,025	\$ 1,612	\$ 293	\$ 83	\$ 10	\$ 8,881
Charge-offs	–	–	–	–	–	–	–
Recoveries	21	437	–	–	1	–	459
Provision for loan losses	33	(878)	(109)	(15)	(11)	5	(975)
Balance at September 30, 2022	\$ 2,912	\$ 3,584	\$ 1,503	\$ 278	\$ 73	\$ 15	\$ 8,365
Balance at December 31, 2021	\$ 3,166	\$ 4,038	\$ 1,541	\$ 249	\$ 74	\$ 10	\$ 9,078
Charge-offs	–	(60)	–	–	–	–	(60)
Recoveries	89	467	–	–	30	–	586
Provision for loan losses	(343)	(861)	(38)	29	(31)	5	(1,239)
Balance at September 30, 2022	\$ 2,912	\$ 3,584	\$ 1,503	\$ 278	\$ 73	\$ 15	\$ 8,365

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

Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one, or a combination of, principal forgiveness, interest rate reduction, or a term or payment extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions. Modified loans to borrowers experiencing financial difficulty and activity on these loans were not material during the three and nine months ended September 30, 2023. There were no material commitments to lend to borrowers experiencing financial difficulty whose loans have been modified at September 30, 2023.

Loans held for sale were \$19 and \$17 at September 30, 2023 and December 31, 2022, respectively. Such loans are carried at the lower of cost or fair value.

### Troubled Debt Restructurings

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

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

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the three and nine months ended September 30, 2022. Payment default is defined as a payment that was thirty days or more past due.

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

	December 31, 2022*	
	Total TDRs	Nonaccrual TDRs
Real estate mortgage	\$ 259	\$ 1
Agribusiness	234	234
Total loans	\$ 493	\$ 235
Additional commitments to lend	\$ —	

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

### Note 3 — Investments

#### Investments in Debt Securities

The Association’s investments consist of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

The Association’s investments also consist of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to the FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At September 30, 2023, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	September 30, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 1,477	\$ 52	\$ —	\$ 1,529	5.77%
ABSs	415	2	(16)	401	4.66
Total	\$ 1,892	\$ 54	\$ (16)	\$ 1,930	5.53%

December 31, 2022					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 1,469	\$ 95	\$ (1)	\$ 1,563	5.77%
ABSs	571	4	(19)	556	3.43
Total	\$ 2,040	\$ 99	\$ (20)	\$ 2,119	5.12%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

September 30, 2023			
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ –	\$ –	–%
After one year through five years	107	101	1.29
After five years through ten years	308	300	5.84
After ten years	1,477	1,529	5.77
Total	\$ 1,892	\$ 1,930	5.53%

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. Following the adoption of CECL on January 1, 2023, this table is no longer required for held-to-maturity securities. Therefore, there is no table presented for the current period.

December 31, 2022				
	Less Than 12 Months		12 Months Or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ 97	\$ (1)	\$ –	\$ –
ABSs	–	–	420	(19)
Total	\$ 97	\$ (1)	\$ 420	\$ (19)

The Association evaluates investment securities with unrealized losses for impairment on a quarterly basis. As part of this assessment, it was concluded that the Association does not intend to sell the security, or it is not more likely than not that the Association would be required to sell the security prior to recovery of the amortized cost basis. The Association also evaluates whether credit impairment exists by comparing the present value of expected cash flows to the amortized cost basis of the security. Credit impairment, if any, is recorded as an ACL for debt securities. At September 30, 2023, the Association does not consider any unrealized losses to be credit-related and an allowance for credit losses is not necessary.

#### ***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 4.67 percent of the issued stock and allocated retained earnings of the Bank as of September 30, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled \$43.4 billion and shareholders' equity totaled \$1.4 billion. The Bank's earnings were \$195 million for the first nine months of 2023. In addition, the Association held investments of \$1,382 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 and 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (137)	\$ (232)	\$ (140)	\$ (239)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	2	3	5	10
Net current period other comprehensive income	2	3	5	10
Balance at end of period	\$ (135)	\$ (229)	\$ (135)	\$ (229)

### Reclassifications Out of Accumulated Other Comprehensive Income (b)

	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2023	2022	2023	2022	
	<b>Defined Benefit Pension Plans:</b>				
Periodic pension costs	\$ (2)	\$ (3)	\$ (5)	\$ (10)	See Note 7.
Net amounts reclassified	\$ (2)	\$ (3)	\$ (5)	\$ (10)	

(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.

	September 30, 2023			
	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Recurring assets</b>				
Assets held in trust funds	\$ 1,170	\$ –	\$ –	\$ 1,170
<b>Nonrecurring assets</b>				
Nonaccrual loans	\$ –	\$ –	\$ 3,055	\$ 3,055
Other property owned	\$ –	\$ –	\$ –	\$ –

	December 31, 2022			
	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Recurring assets</b>				
Assets held in trust funds	\$ 922	\$ –	\$ –	\$ 922
<b>Nonrecurring assets</b>				
Impaired loans*	\$ –	\$ –	\$ –	\$ –
Other property owned	\$ –	\$ –	\$ –	\$ –

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

## Valuation Techniques

### *Assets held in trust funds*

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

### *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.

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**Note 7 — Employee Benefit Plans**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Pension	\$ 311	\$ 309	\$ 883	\$ 929
401(k)	262	253	822	765
Other postretirement benefits	120	115	349	358
Total	\$ 693	\$ 677	\$ 2,054	\$ 2,052

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 claims that may be pending.

**Note 9 — Subsequent Events**

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2023, which was the date the financial statements were issued.

On October 27, 2023 the AgFirst Board of Directors approved an increase to the Association Investment in AgFirst from 1.00 percent to 1.50 percent effective October 31, 2023. This resulted in an increase in the equity investment in AgFirst of \$7.1 million to \$24.9 million.