AGFIRST FARM CREDIT BANK & DISTRICT ASSOCIATIONS

2023 FIRST QUARTER FINANCIAL INFORMATION

FARM CREDIT

AgFirst Farm Credit Bank and District Associations March 31, 2023 Financial Information

(unaudited)

INTRODUCTION AND DISTRICT OVERVIEW

The following commentary reviews the Combined Financial Statements of condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the AgFirst District (District), for the three months ended March 31, 2023. AgFirst and the District Associations are part of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. System institutions are generally organized as cooperatives. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses. AgFirst and each District Association are individually regulated by the Farm Credit Administration (FCA).

The Associations are structured as cooperatives, and each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations, certain Other Financing Institutions (OFIs), and other System institutions jointly own AgFirst. As such, the benefits of ownership flow to the same farmer/rancher-borrowers that the System was created to serve.

As of March 31, 2023, the District consisted of the Bank and seventeen District Associations. See *Other Matters* section below for details of merger activity among Associations in the District. All seventeen were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate and service both long-term real estate mortgage loans and short- and intermediate-term loans.

Farm Credit's funds are raised by the Federal Farm Credit Banks Funding Corporation (the Funding Corporation) and insured by the Farm Credit System Insurance Corporation (FCSIC). The Funding Corporation issues a variety of Federal Farm Credit Banks Consolidated Systemwide Debt Securities with broad ranges of maturities and structures on behalf of the System banks. Each System bank has exposure to Systemwide credit risk because each bank is jointly and severally liable for all Systemwide debt issued.

AgFirst provides funding and related services to the District Associations, which, in turn, provide loans and related services to agricultural and rural borrowers. AgFirst has in place with each of the District Associations, a revolving line of credit, referred to as a "Direct Note", which eliminates in this combined District report. Each Association primarily funds its lending and general corporate activities by borrowing through its Direct Note. Virtually all assets of the Associations secure the Direct Notes. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations.

AgFirst and the Associations are chartered to serve eligible borrowers in Alabama, Delaware, Florida, Georgia, Maryland, Mississippi, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia, Puerto Rico, and portions of Kentucky, Louisiana, Ohio, and Tennessee. As of March 31, 2023, two other Farm Credit Banks (FCBs) and an Agricultural Credit Bank (ACB), through a number of associations, provided loans and related services to eligible borrowers primarily in the remaining portion of the United States. While owned by its related associations, each FCB manages and controls its own business activities and operations. The ACB is owned by its related associations as well as other agricultural and rural institutions, including agricultural cooperatives. Associations are not commonly owned or controlled and each manages and controls its own business activities and operations.

While combined District statements reflect the financial and operational interdependence of AgFirst and its Associations, AgFirst does not own or control the Associations. AgFirst publishes Bank-only audited financial statements (electronic version of which is available on AgFirst's website at **www.agfirst.com**) that may be referred to for a more complete analysis of AgFirst's financial condition and results of operations.

Financial Highlights

(dollars in thousands)		**March 31, 2023**		December 31, 2022
Total loans	**$**	**38,827,002**	$	38,103,069
Allowance for loan losses		**(172,771)**		(181,254)
Net loans		**38,654,231**		37,921,815
Total assets		**49,606,157**		48,907,496
Total shareholders' equity		**6,776,230**		6,585,151

	For the Three Months Ended March 31,			
		2023		**2022**
Net interest income	**$**	**338,114**	$	330,478
Provision (reversal) of credit losses		**37,169**		(7,113)
Noninterest expense, net		**(164,410)**		(140,899)
Net income	**$**	**136,535**	$	196,692
Net interest income as a percentage of average earning assets		**2.84 %**		2.99 %
Net (charge-offs) recoveries to average loans		**(0.14)%**		0.00 %
Return on average assets		**1.13 %**		1.74 %
Return on average shareholders' equity		**8.14 %**		10.74 %
Operating expense as a percentage of net interest income and noninterest income		**51.36 %**		46.21 %
Average loans	**$**	**38,408,012**	$	35,129,763
Average earning assets		**48,199,929**		44,845,041
Average assets		**49,117,204**		45,781,349

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

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2023, was $136.5 million compared to $196.7 million for the corresponding period in 2022, a decrease of $60.2 million or 30.58 percent. See below for further discussion of the change in net income by major components.

Net Interest Income

Net interest income increased $7.6 million, or 2.31 percent, to $338.1 million, for the three months ended March 31, 2023, compared to the same period in the prior year. The net interest margin, which is net interest income as a percentage of average earning assets, was 2.84 percent, a decrease of 15 basis points for the three months ended March 31, 2023 compared to the same period in the prior year.

A significant volume of the District's assets have long-term, fixed-rate, prepayable payment structures. To mitigate interest rate risk exposure, the Bank funds such assets predominately with fixed-rate, callable debt having maturities similar to the assets funded. When interest rates fall, as they did during 2020 in response to the economic slowdown associated with the COVID-19 pandemic, the Bank quickly calls any debt securities that result in cost savings. This temporarily increases net interest margin. The decline of net interest margin is due primarily to net interest margin returning toward a normal level following the decline in rates in early 2020.

Net interest income remained relatively stable despite the net interest spread and net interest margin decreasing primarily due to an increase in interest-earning assets volume.

The effects of changes in volume and interest rates on net interest income for the three months ended March 31, 2023, as compared with the corresponding period in 2022, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

	For the Three Months Ended March 31, 2023 vs. March 31, 2022		
	Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total
Interest Income:			
Loans	$ 46,181	$ 136,449	$ 182,630
Investments & Cash Equivalents	(1,669)	39,435	37,766
Other	3,092	1,186	4,278
Total Interest Income	47,604	177,070	224,674
Interest Expense	27,131	189,907	217,038
Changes in Net Interest Income	$ 20,473	$ (12,837)	$ 7,636

Provision for Credit Losses

AgFirst and the District Associations measure risks inherent in their individual loan portfolios on an ongoing basis and, as necessary, recognize provision for credit loss expense so that appropriate allowances for credit losses (ACL) are maintained. Provision for credit losses, which includes the provision for loan loss and the provision for unfunded commitments, was a provision expense of $37.2 million for the three months ended March 31, 2023 compared to a provision reversal of $7.1 million for the corresponding period in 2022. The impact of the requirement to estimate losses over the contractual life of the loan as part of the adoption of Accounting Standards Update - Financial Instruments - Credit Losses, commonly referred to as the Current Expected Credit Losses (CECL) standard, can lead to larger volatility in provision expense when compared to the previous incurred loss model.

Beginning in the first quarter of 2023, in conjunction with the adoption of CECL, the District reclassified the provision for unfunded commitments from noninterest income to the provision for credit loss on a prospective basis. During the first quarter, there was a provision reversal for unfunded commitments of $688 thousand.

For the three months ended March 31, 2023, the provision for loan losses included provision expense for individually evaluated credits of $32.7 million and net provision expense of $5.2 million for loans collectively evaluated for credit loss. Total provision expense was primarily related to borrowers in the tree fruits and nuts ($19.1 million expense), forestry ($7.8 million expense), field crops ($6.9 million expense), and rural home loans ($6.7 million expense) segments.

For the three months ended March 31, 2022, the provision for loan losses included provision expense for specific reserves of $432 thousand and provision reversal for general reserves of $7.5 million. Total provision reversal primarily related to borrowers in the grains ($1.9 million reversal), poultry ($1.7 million reversal), field crops ($1.3 million reversal), corn ($1.2 million reversal), cotton ($1.1 million reversal), dairy ($1.0 million reversal), and rural home loans ($1.0 million expense) segments.

See the *Loan Portfolio* section below for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the Three Months Ended March 31,**		
(dollars in thousands)	**2023**	**2022**	**Increase/ (Decrease)**
Loan fees	$ 10,092	$ 10,137	$ (45)
Fees for financially related services	3,583	2,578	1,005
Losses on debt extinguishment	(1,263)	—	(1,263)
Gains on other transactions	2,748	2,959	(211)
Patronage refunds from other Farm Credit institutions	2,728	4,211	(1,483)
Other noninterest income	1,687	2,418	(731)
Total noninterest income	$ 19,575	$ 22,303	$ (2,728)

Noninterest income decreased $2.7 million for the three months ended March 31, 2023 compared to the corresponding period in 2022. There were no line-item dollar variances greater than $2.0 million.

Noninterest Expenses

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses	**For the Three Months Ended March 31,**		
(dollars in thousands)	**2023**	**2022**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 99,159	$ 93,580	$ 5,579
Occupancy and equipment	7,282	7,010	272
Insurance fund premiums	16,114	12,553	3,561
Purchased services	17,554	16,903	651
Data processing	11,528	8,388	3,140
Other operating expenses	32,057	24,569	7,488
Losses (gains) from other property owned	(248)	(75)	(173)
Total noninterest expenses	$ 183,446	$ 162,928	$ 20,518

Noninterest expenses increased $20.5 million for the three months ended March 31, 2023 compared to the same period in 2022. Line-item dollar variances greater than $2.0 million are discussed below.

Salaries and employee benefits expenses increased $5.6 million for the three months ended March 31, 2023. The increase resulted primarily due to normal salary administration at the Bank and District Associations.

Insurance fund premiums increased $3.6 million for the three months ended March 31, 2023 primarily due to an increase in the premium assessment rate from 16 basis points during the first three months of 2022 to 18 basis points in 2023.

As a result of significant technology initiatives (primarily loan accounting and loan origination systems, and data management enhancements), data processing expenses increased $3.1 million for the three months ended March 31, 2023 compared to the same period in 2022. The increase in data processing resulted primarily from higher software and hardware depreciation and maintenance costs as a result of new systems purchased as part of the technology modernization initiatives.

Other operating expenses increased $7.5 million for the three months ended March 31, 2023, primarily due to an increase in non-service pension expense of $4.7 million. This increase is primarily due to an increase in the discount rates used to calculate the pension liabilities and a special termination benefit resulting from an Association merger that resulted in $1.2 million of expenses. Travel expenses increased by $1.8 million during the first three months of 2023 when compared to the same period in 2022 as business travel increased with reductions in travel restrictions associated with the COVID-19 pandemic.

LOAN PORTFOLIO

The District's aggregate loan portfolio consists primarily of loans made by the Associations to eligible borrowers located within their chartered territories. Diversification of the loan volume by FCA loan type is shown in the following table:

Loan Types

(dollars in thousands)	March 31, 2023		December 31, 2022		March 31, 2022	
Real estate mortgage	$ 19,495,933	50.21 %	$ 19,567,465	51.35 %	$ 18,944,195	53.45 %
Production and intermediate-term	6,804,655	17.53	7,087,492	18.60	6,333,613	17.87
Agribusiness:						
Loans to cooperatives	888,028	2.29	763,647	2.01	1,004,618	2.82
Processing and marketing	3,754,447	9.67	3,387,983	8.89	2,906,342	8.20
Farm-related business	581,719	1.50	581,143	1.53	483,173	1.36
Rural infrastructure:						
Power	1,495,241	3.85	1,129,848	2.97	831,752	2.35
Communication	1,127,117	2.90	1,051,506	2.76	842,616	2.38
Water/Waste disposal	233,389	0.60	203,724	0.53	66,604	0.18
Rural residential real estate	3,743,832	9.64	3,718,275	9.76	3,482,720	9.83
Other:						
International	296,279	0.76	214,546	0.56	176,589	0.50
Lease receivables	12,042	0.03	12,979	0.03	12,584	0.04
Loans to other financing institutions (OFIs)	162,077	0.42	166,260	0.44	158,916	0.45
Other (including mission related)	232,243	0.60	218,201	0.57	200,833	0.57
Total	$ 38,827,002	100.00 %	$ 38,103,069	100.00 %	$35,444,555	100.00 %

Total loans outstanding were $38.8 billion at March 31, 2023, an increase of $723.9 million, or 1.90 percent, compared to December 31, 2022 and an increase of $3.4 billion, or 9.54%, since March 31, 2022.

Compared to year-end 2022, the increase in loans was primarily in the processing, utilities, forestry, and field crops segments. Compared to March 31, 2022, the year-over-year increase in loan volume was primarily in the processing, utilities, forestry, field crops, and rural home loan segments. Growth in both periods came from a combination of factors including new client acquisition, an increase in transactions due to government initiatives to expand rural infrastructure, borrower liquidity needs due to commodity price escalation, and merger and acquisition activity.

Credit Quality

Each loan in the District's portfolio is classified according to a Uniform Classification System, which is used by all System institutions. Below are the classification definitions:

- Acceptable – Assets are expected to be fully collectible and represent the highest quality. In addition, these assets may include loans with properly executed and structured guarantees that might otherwise be classified less favorably.
- OAEM – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table shows the amortized cost of loans classified under the Uniform Loan Classification System by origination year:

District Credit Quality by Origination Year

(in thousands)

Balance as of March 31, 2023	Acceptable	OAEM	Substandard	Doubtful	Loss	Current Period Gross Writeoffs
2023	$ 1,808,660	$ 5,422	$ 2,913	$ —	$ —	$ —
2022	7,455,943	57,421	38,652	—	—	9,098
2021	6,921,346	49,770	41,559	—	—	60
2020	4,727,231	59,267	73,311	36	—	50
2019	2,822,886	35,079	77,504	—	1	89
Prior	8,792,565	184,307	133,813	68	12	136
Revolving loans	5,381,212	112,243	45,781	—	—	4,488
Total	$ 37,909,843	$ 503,509	$ 413,533	$ 104	$ 13	$ 13,921
Total as of December 31, 2022	$ 37,373,882	$ 529,257	$ 465,550	$ 63	$ —	$ 5,700

District credit quality has remained stable, but it may be impacted in future quarters as a result of potential changes in government support for agricultural sectors, inflationary input cost pressures, rising interest rates, and unforeseen impacts from geopolitical, trade, supply chain, weather, or animal or human related health events.

Nonaccrual Loans

As a result of stable credit quality and the District's efforts to resolve problem assets, the District's nonaccrual assets continue to be a small percentage of the total loan volume and total assets. Nonaccrual loans by FCA loan type are as follows:

(dollars in thousands)	March 31, 2023	December 31, 2022
Nonaccrual loans:		
Real estate mortgage	$ 78,804	$ 77,412
Production and intermediate-term	101,009	68,326
Agribusiness	8,207	6,779
Rural infrastructure	5,988	2,966
Rural residential real estate	19,227	19,200
Other	83	255
Total	$ 213,318	$ 174,938

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at March 31, 2023 were $213.3 million compared to $174.9 million at December 31, 2022. Nonaccrual loans increased $38.4 million during the three months ended March 31, 2023, due primarily to $69.5 million of loans transferred to nonaccrual and $3.6 million of advances on nonaccrual loans, partially offset by $20.2 million of repayments, and $13.8 million of charge-offs of uncollectible balances. Nonaccrual loans were 0.55 percent of total loans outstanding at March 31, 2023, compared to 0.46 percent at December 31, 2022.

	Nonaccrual by Eligibility			
	March 31, 2023		December 31, 2022	
	Total Amount	% of Total	Total Amount	% of Total
Tree Fruits and Nuts	$ 64,094	30.05 %	$ 13,580	7.76 %
Field Crops	32,638	15.30 %	49,393	28.23 %
Rural Home Loans	19,382	9.09 %	19,239	11.00 %
Poultry	16,811	7.88 %	16,891	9.66 %
Grains	15,123	7.09 %	15,442	8.83 %
Forestry	14,647	6.87 %	11,180	6.39 %
Cattle	11,011	5.16 %	11,115	6.35 %
Other	39,612	18.56 %	38,098	21.78 %
Total	$ 213,318	100.00 %	$ 174,938	100.00 %

Aging Analysis of Loans

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

	March 31, 2023					
(dollars in thousands)	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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 68,580	$ 33,194	$ 101,774	$ 19,394,159	$ 19,495,933	$ 1,634
Production and intermediate-term	24,180	25,343	49,523	6,755,132	6,804,655	1,000
Agribusiness	16,078	4,301	20,379	5,203,815	5,224,194	—
Rural infrastructure	—	—	—	2,855,747	2,855,747	—
Rural residential real estate	36,010	8,036	44,046	3,699,786	3,743,832	1,917
Other	1,363	9,410	10,773	691,868	702,641	9,326
Total	$ 146,211	$ 80,284	$ 226,495	$ 38,600,507	$ 38,827,002	$ 13,877

Prior to the adoption of CECL on January 1, 2023, the aging analysis of past due loans reported included accrued interest as follows:

	December 31, 2022					
(dollars in thousands)	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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 70,488	$ 34,242	$ 104,730	$ 19,615,099	$ 19,719,829	$ 1,144
Production and intermediate-term	31,708	25,075	56,783	7,105,705	7,162,488	38
Agribusiness	9,060	13,861	22,921	4,730,128	4,753,049	10,280
Rural infrastructure	—	—	—	2,390,356	2,390,356	—
Rural residential real estate	45,923	10,730	56,653	3,670,693	3,727,346	1,587
Other	10,272	1,251	11,523	604,161	615,684	1,186
Total	$ 167,451	$ 85,159	$ 252,610	$ 38,116,142	$ 38,368,752	$ 14,235

Allowance for Credit Losses

Each District institution maintains an allowance for credit losses at a level management considers adequate to provide for estimable credit losses within its respective loan and finance lease portfolios as of each reported balance sheet date. Management's evaluations consider factors which include, among other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions. Although aggregated in the District's combined financial statements, the allowance for credit losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities.

On January 1, 2023, the Bank and District Associations adopted CECL, which replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses over the contractual life of the financial assets. This standard requires the Bank and District Associations to estimate losses of all financial assets including loans and investment securities. Upon adoption of the standard, the District recorded a Day 1 decrease in the Allowance for Credit Losses (ACL) of $23.0 million, which included a $27.8 million decrease in the allowance for loan losses and a $4.8 million increase in the reserve for unfunded commitments. The Bank and District Associations did not record an allowance for credit losses on any other financial assets, including the investment portfolio. See further discussion on the adoption of CECL in the respective Bank and District Associations' first quarter reports.

A summary of changes in the allowance for credit losses is as follows:

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate -term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Activity related to allowance for credit losses:							
Balance at December 31, 2022	$ 82,018	$ 65,472	$ 20,146	$ 3,875	$ 8,824	$ 919	$ 181,254
Cumulative effect of change in accounting principle	(14,693)	(23,270)	(1,246)	(758)	12,605	(476)	(27,838)
Charge-offs	(109)	(13,699)	(13)	—	(100)	—	(13,921)
Recoveries	175	865	5	—	22	—	1,067
Provision for loan losses	4,760	26,512	(1,595)	1,775	6,219	186	37,857
Merger adjustment	(3,886)	(1,065)	(424)	(64)	(28)	(181)	(5,648)
Balance at March 31, 2023	$ 68,265	$ 54,815	$ 16,873	$ 4,828	$ 27,542	$ 448	$ 172,771
Allowance for unfunded commitments:							
Balance at December 31, 2022	$ 189	$ 2,747	$ 2,727	$ 78	$ 15	$ 48	$ 5,804
Cumulative effect of change in accounting principle	565	791	2,936	463	22	37	4,814
Provision for unfunded commitments	444	126	(1,174)	(83)	—	(1)	(688)
Balance at March 31, 2023	$ 1,198	$ 3,664	$ 4,489	$ 458	$ 37	$ 84	$ 9,930
Balance at December 31, 2021	$ 98,823	$ 79,314	$ 19,662	$ 5,170	$ 8,341	$ 906	$ 212,216
Charge-offs	(909)	(309)	(11)	—	(818)	—	(2,047)
Recoveries	839	678	15	—	117	—	1,649
Reversal of loan losses	(533)	(7,586)	29	30	1,032	(85)	(7,113)
Balance at March 31, 2022	$ 98,220	$ 72,097	$ 19,695	$ 5,200	$ 8,672	$ 821	$ 204,705

The allowance for loan losses was $172.8 million at March 31, 2023, as compared with $181.3 million at December 31, 2022, a decrease of $8.5 million. Subsequent to the adoption of CECL on January 1, 2023, the allowance for loan losses increased by $19.4 million. The increase subsequent to the adoption of CECL was primarily the result of $37.9 million of provision expense, partially offset by $13.9 million of charge-offs and a reduction in overall allowance of $5.6 million as the result of a merger of Associations during the first quarter.

Allowance for Loan Losses by Eligibility

	March 31, 2023		December 31, 2022	
	Total Amount	% of Total	Total Amount	% of Total
Rural Home Loans	$ 27,789	16.08 %	$ 8,683	4.79 %
Tree Fruits and Nuts	26,627	15.41 %	8,765	4.84 %
Poultry	21,102	12.21 %	22,707	12.53 %
Forestry	19,673	11.39 %	19,253	10.62 %
Field Crops	14,527	8.41 %	26,372	14.55 %
Other	63,053	36.50 %	95,474	52.67 %
Total	$ 172,771	100.00 %	$ 181,254	100.00 %

Charge-offs during the first three months of 2023 were related primarily to borrowers in the field crops (97.61 percent of the total) and there were no significant recoveries in an individual industry segment. See *Provision for Credit Losses* section above for additional details regarding loan loss provision expense and reversals. The allowance at March 31, 2023, included specific reserves of $37.7 million (21.80 percent of the total) and $135.1 million (78.20 percent) of general reserves. The allowance for loan losses was 0.44 percent, 0.48 percent, and 0.58 percent of total loans outstanding at March 31, 2023, December 31, 2022, and March 31, 2022, respectively.

INVESTMENTS

The Bank is responsible for meeting the District's funding, liquidity, and asset/liability management needs. Along with normal cash flows associated with lending operations, the District has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation, and cash and investments. The Bank also maintains several repurchase agreement facilities. In addition, the System has established a line of credit in the event contingency funding is needed to meet obligations of System banks.

The Bank's investments are primarily classified as available-for-sale investments. Refer to the Bank's First Quarter 2023 Report for additional information related to investments. District Associations also have regulatory authority to enter into certain government guaranteed investments, generally mortgage-backed or asset-backed securities. There was no allowance for credit loss on District investments at March 31, 2023. The following tables summarize the District's investments:

	March 31, 2023			
(dollars in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
District Bank investments	$ 9,808,166	$ 5,763	$ (886,524)	$ 8,927,405
District Association investments	45,585	392	(1,287)	44,690
Total District investments	$ 9,853,751	$ 6,155	$ (887,811)	$ 8,972,095

	December 31, 2022			
(dollars in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
District Bank investments	$10,069,991	$ 931	$ (995,672)	$ 9,075,250
District Association investments	25,608	151	(1,737)	24,022
Total District investments	$10,095,599	$ 1,082	$ (997,409)	$ 9,099,272

At March 31, 2023, there were $887.8 million in unrealized losses in investments, compared to $997.4 million at December 31, 2022. The unrealized losses are the result of the significant increase in interest rates during 2022 which decreased the fair value of existing available-for-sale fixed-rate investment securities. All available-for-sale securities are held at the Bank and it is anticipated that these securities will be held until maturity with no loss realized. The change during the first quarter is primarily due to a decline in longer-term interest rates which positively impacted the fair value of fixed-rate investments.

CAPITAL

Capital serves to support future asset growth, investment in new products and services, and to provide protection against credit, interest rate, and other risks, as well as operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

Total shareholders' equity increased $191.1 million, or 2.90 percent, from December 31, 2022, to $6.8 billion at March 31, 2023. This increase is primarily attributed to net income of $136.5 million, a reduction of $113.6 million in unrealized losses (see discussion in *Investments* section above), $23.0 million in cumulative effect adjustment due to the adoption of CECL, and capital stock issued of $16.6 million. These increases were partially offset by cash patronage of $25.1 million, $22.5 million in retained earnings retired, and capital stock retired of $20.1 million.

In addition to the changes described above, the AgCarolina Farm Credit merger effective on January 1, 2023 reduced equity by $40.7 million due to a decrease in unallocated retained earnings of $106.2 million and an increase in additional paid-in capital of $65.5 million.

Accumulated Other Comprehensive Income (Loss)

(dollars in thousands)	March 31, 2023	December 31, 2022
Unrealized gain (loss) on investment securities	$ (880,425)	$ (994,070)
Derivatives and hedging activity	—	—
Employee benefit plans activity	(242,923)	(250,024)
Total accumulated other comprehensive income (loss)	$ (1,123,348)	$ (1,244,094)

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. The Bank and all Associations exceeded regulatory capital requirements, as demonstrated in the following table. These ratios are calculated using a three-month average daily balance.

Regulatory Capital Requirements and Ratios

As of March 31, 2023	Primary Components of Numerator	Regulatory Minimums	Minimum with Buffer	Bank	District Associations
Risk adjusted:					
Common equity tier 1 capital ratio	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	4.50 %	7.00 %	14.15%	16.32% - 33.44%
Tier 1 capital ratio	CET1 capital, non-cumulative perpetual preferred stock	6.00 %	8.50 %	14.15%	16.32% - 33.44%
Total capital ratio	Tier 1 capital, allowance for loan losses[2], common cooperative equities[3] and term preferred stock and subordinated debt[4]	8.00 %	10.50 %	14.41%	16.63% - 34.18%
Permanent capital ratio	Retained earnings, common stock, non-cumulative perpetual preferred stock, and subordinated debt, subject to certain limits	7.00 %	7.00 %	14.19%	16.59% - 33.69%
Non-risk adjusted:					
Tier 1 leverage ratio*	Tier 1 capital	4.00 %	5.00 %	5.72%	14.76% - 32.55%
URE and UREE component	URE and URE equivalents	1.50 %	1.50 %	4.71%	11.06% - 32.27%

[1] *Equities outstanding 7 or more years*
[2] *Capped at 1.25% of risk-adjusted assets*
[3] *Outstanding 5 or more years, but less than 7 years*
[4] *Outstanding 5 or more years*
* Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.

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 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.

On June 30, 2021, the FCA issued an advance notice of proposed rulemaking (ANPRM) that seeks public comments on whether to amend or restructure the System bank liquidity regulations. The purpose of this advance notice is to evaluate the applicability of the Basel III framework to the Farm Credit System and gather input to ensure that System banks have the liquidity to withstand crises that adversely impact liquidity and threaten their viability. The public comment period ended on November 27, 2021.

OTHER MATTERS

Direct Notes

See the *Direct Notes* section of *Management's Discussion & Analysis of Financial Condition & Results of Operations* in the AgFirst Farm Credit Bank First Quarter 2023 Report for a discussion of the Bank's funding to District Associations.

At March 31, 2023, one Association with Direct Notes outstanding of $117.7 million (0.56 percent of total Direct Note), was operating under a special credit agreement with the Bank pursuant to the GFA and classified as OAEM.

Association Merger Activity

Following approval by AgFirst, the FCA, and shareholders, effective January 1, 2023, Cape Fear Farm Credit, ACA merged with and into AgCarolina Farm Credit, ACA. Combined total assets for these two Associations were $2.5 billion as of March 31, 2023.

Following approval by AgFirst, the FCA, and shareholders, effective April 1, 2023, Carolina Farm Credit, ACA merged with and into AgSouth Farm Credit, ACA. Combined total assets for these two Associations were $4.1 billion as of March 31, 2023.

LIBOR Transition

The Bank and Associations have exposure to LIBOR arising from loans made to customers, investment securities purchased, and Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf.

The FCA has issued guidance similar to that of 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 Bank and Associations have implemented LIBOR transition plans and continue 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 Bank and District 2022 Annual Reports for further discussion on the LIBOR transition.

The following is a summary of District variable-rate financial instruments outstanding with LIBOR exposure at period end:

	March 31, 2023				
(dollars in millions)	**Due Before June 30, 2023**	**Due After June 30, 2023**	**Total**	**% Due After June 30, 2023 to Balance Sheet Line Item**	**% Due After June 30, 2023 without fallback provisions**
Investments	$ —	$ 724	$ 724	8.1%	—%
Loans	43	1,853	1,896	6.0%	—%
Total Assets	$ 43	$ 2,577	$ 2,620	6.1%	—%
Systemwide debt securities	$ —	$ —	$ —	N/A	N/A
Total Liabilities and Equity	$ —	$ —	$ —	N/A	N/A

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after March 31, 2023 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable.

Balance Sheets

(unaudited)

(dollars in thousands)	March 31, 2023	December 31, 2022
Assets		
Cash	**$ 726,322**	$ 750,899
Cash equivalents	**450,000**	350,000
Investments in debt securities:		
Available-for-sale (amortized cost of $9,794,831 and $10,055,933, respectively)	**8,914,295**	9,061,750
Held-to-maturity (fair value of $58,181 and $37,522, respectively)	**58,921**	39,666
Total investments in debt securities	**8,973,216**	9,101,416
Loans	**38,827,002**	38,103,069
Allowance for loan losses	**(172,771)**	(181,254)
Net loans	**38,654,231**	37,921,815
Loans held for sale	**1,791**	1,720
Accrued interest receivable	**298,460**	296,439
Accounts receivable	**45,424**	53,540
Equity investments in other Farm Credit institutions	**62,662**	62,823
Other Investments	**4,062**	3,902
Premises and equipment, net	**311,258**	294,045
Other property owned	**3,380**	4,310
Other assets	**75,351**	66,587
Total assets	**$ 49,606,157**	$ 48,907,496
Liabilities		
Systemwide bonds payable	**$ 35,330,080**	$ 35,233,552
Systemwide notes payable	**6,748,987**	6,186,573
Accrued interest payable	**188,130**	142,782
Accounts payable	**89,115**	485,684
Advanced conditional payments	**14,737**	9,548
Other liabilities	**458,878**	264,206
Total liabilities	**42,829,927**	42,322,345
Shareholders' Equity		
Protected borrower equity	**445**	445
Capital stock and participation certificates	**187,856**	191,247
Additional paid-in-capital	**420,105**	354,575
Retained earnings		
Allocated	**2,385,671**	2,398,494
Unallocated	**4,905,501**	4,884,484
Accumulated other comprehensive loss	**(1,123,348)**	(1,244,094)
Total shareholders' equity	**6,776,230**	6,585,151
Total liabilities and equity	**$ 49,606,157**	$ 48,907,496

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended March 31, 2023	2022
Interest Income		
Investments	**$ 74,630**	$ 36,864
Loans	**541,058**	358,428
Other	**4,316**	38
Total interest income	**620,004**	395,330
Interest Expense	**281,890**	64,852
Net interest income	**338,114**	330,478
Provision for (reversal of) credit losses	**37,169**	(7,113)
Net interest income after provision for credit losses	**300,945**	337,591
Noninterest Income		
Loan fees	**10,092**	10,137
Fees for financially related services	**3,583**	2,578
Losses on debt extinguishment	**(1,263)**	—
Gains on other transactions	**2,748**	2,959
Patronage refunds from other Farm Credit institutions	**2,728**	4,211
Other noninterest income	**1,687**	2,418
Total noninterest income	**19,575**	22,303
Noninterest Expenses		
Salaries and employee benefits	**99,159**	93,580
Occupancy and equipment	**7,282**	7,010
Insurance Fund premiums	**16,114**	12,553
Purchased services	**17,554**	16,903
Data processing	**11,528**	8,388
Other operating expenses	**32,057**	24,569
Losses from other property owned	**(248)**	(75)
Total noninterest expenses	**183,446**	162,928
Income before income taxes	**137,074**	196,966
Provision for income taxes	**539**	274
Net income	**$ 136,535**	$ 196,692
Other comprehensive income (loss):		
Unrealized gains (losses) on investments	**$ 113,645**	$ (381,389)
Change in value of cash flow hedges	**—**	(9)
Employee benefit plans adjustments	**7,101**	5,774
Other comprehensive income (loss)	**120,746**	(375,624)
Comprehensive income (loss)	**$ 257,281**	$ (178,932)

DISTRICT ASSOCIATIONS

As of March 31, 2023

Associations	Direct Notes	% of Direct Note Total	Total Assets	Total Allowance and Capital	Total Regulatory Capital Ratio	Nonperforming Loans as a % of Total Loans	ROA
(dollars in thousands)							
Horizon	$ 5,120,871	22.79 %	$ 6,413,019	$ 1,184,866	16.63 %	0.54 %	2.21 %
AgCredit	2,385,870	10.62	2,919,224	493,790	20.12	0.59	2.04
First South	2,324,769	10.34	2,988,334	621,549	18.06	0.39	1.87
AgCarolina	1,913,781	8.52	2,485,303	520,543	18.23	0.68	1.59
AgSouth	1,632,663	7.26	2,144,041	457,660	21.71	0.52	1.24
Virginias	1,621,742	7.22	2,153,681	493,410	21.50	0.99	1.45
Carolina	1,557,833	6.93	1,993,284	395,652	19.42	0.20	2.31
Florida	1,216,270	5.41	1,594,220	354,281	19.16	0.65	1.78
AgGeorgia	962,803	4.28	1,273,314	288,394	22.01	0.40	1.81
Central Florida	717,262	3.19	874,473	138,016	17.41	0.79	(0.40)
Southwest Georgia	575,360	2.56	710,602	128,387	17.10	1.46	1.91
Central Kentucky	559,007	2.49	706,067	140,300	20.05	0.15	1.73
Colonial	558,044	2.48	780,167	203,800	23.34	0.15	2.04
ArborOne	500,176	2.23	626,788	126,663	18.66	0.91	2.23
River Valley	447,478	1.99	586,235	125,475	19.60	0.98	1.59
Northwest Florida	261,465	1.16	362,302	95,519	24.65	0.06	1.52
Puerto Rico	117,690	0.52	179,376	62,497	34.18	6.06	(3.08)

AgFirst Farm Credit Bank

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803-799-5000
www.agfirst.com

AgFirst District Associations

AgCarolina Farm Credit, ACA*
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Greenville, NC 27834
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www.agcarolina.com

AgCredit Agricultural Credit Association
610 W. Lytle Street
Fostoria, OH 44830-3422
419-435-7758
www.agcredit.net

AgGeorgia Farm Credit, ACA
468 Perry Parkway
Perry, GA 31069
478-987-8300
www.aggeorgia.com

AgSouth Farm Credit, ACA**
146 Victory Lane
Statesville, NC 28625
704-873-0276
www.agsouthfc.com

ArborOne, ACA
800 Woody Jones Blvd.
Florence, SC 29501
843-662-1527
www.arborone.com

Central Kentucky Agricultural Credit Association
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Lexington, KY 40504
859-253-3249
www.agcreditonline.com

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305 Colquitt Highway
Bainbridge, GA 39817
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*AgCarolina Farm Credit, ACA and Cape Fear Farm Credit, ACA merged on January 1, 2023
**AgSouth Farm Credit, ACA and Carolina Farm Credit, ACA merged on April 1, 2023