2023 THIRD QUARTER REPORT

AGFIRST
FARM CREDIT BANK

BUILDING BLOCKS

THIRD QUARTER 2023

Table of Contents

Report on Internal Control Over Financial Reporting 2

Management's Discussion and Analysis of
Results of Operations and Financial Condition 3

Financial Statements:
- Balance Sheets 17
- Statements of Comprehensive Income 18
- Statements of Changes in Shareholders' Equity 19
- Statements of Cash Flows 20

Notes to the Financial Statements 21

Additional Regulatory Information 45

CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2023, quarterly report of AgFirst Farm Credit Bank, 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.

Michael T. ("Bo") Stone
Chairman of the Board

Leon T. Amerson
Chief Executive Officer & President

Stephen Gilbert
Chief Financial Officer

November 8, 2023

Report on Internal Control Over Financial Reporting

The Bank'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 Bank's 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 Bank'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 is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America (GAAP).

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 Bank, (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 Bank, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its Financial Statements.

The Bank'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 Bank'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 Bank's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2023.

Leon T. Amerson
Chief Executive Officer & President

Stephen Gilbert
Chief Financial Officer

November 8, 2023

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

The following discussion reviews the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) as of and for the three and nine months ended September 30, 2023. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Financial Statements, and the 2022 Annual Report of AgFirst Farm Credit Bank. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The accompanying financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of AgFirst. However, the results of operations for the three and nine months may not be indicative of an entire year due to the seasonal nature of a portion of AgFirst's business and potential variability in interest rates and credit conditions.

FORWARD-LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from AgFirst's expectations and predictions due to a number of risks and uncertainties, many of which are beyond AgFirst's control.

There have been no material changes to the risks described in the Bank's 2022 Annual Report. Terms not defined herein have the meaning set forth in the 2022 Annual Report.

CRITICAL ACCOUNTING POLICIES

The Bank's financial statements are reported in conformity with generally accepted accounting principles in the United States of America. The significant accounting policies are critical to the understanding of the results of operations and financial condition because some accounting policies require complex or subjective judgments and estimates that may affect the reported amounts of certain assets or liabilities. For a complete discussion of the significant accounting policies, see Note 2 to the Bank's 2022 Annual Report.

On January 1, 2023, the Bank adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments," commonly referred to as the current expected credit loss (CECL) standard, and other subsequently issued accounting standards updates related to credit losses. See *Note 1 - Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements* for more information regarding the impact of adopting this new standard.

RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2023, was $195.5 million compared to $312.8 million for the nine months ended September 30, 2022, a decrease of $117.3 million, or 37.50 percent. Net income for the three months ended September 30, 2023, was $60.8 million compared to $96.5 million for the three months ended September 30, 2022, a decrease of $35.7 million, or 37.03 percent. See below for further discussion of the change in net income by major components.

Key Results of Operations Comparisons

	Annualized for the Nine Months Ended September 30, 2023	For the Year Ended December 31, 2022	Annualized for the Nine Months Ended September 30, 2022
Return on average assets	0.61 %	1.02 %	1.05 %
Return on average shareholders' equity	16.37 %	21.32 %	20.48 %
Net interest margin	1.18 %	1.53 %	1.57 %
Efficiency ratio [1]	47.35 %	35.36 %	34.80 %
Net (charge-offs) recoveries to average loans	(0.02)%	(0.01)%	0.00 %

[1] The efficiency ratio is noninterest expense excluding losses (gains) from other property owned divided by total revenue (net interest income and noninterest income)

The annualized return on average assets, average shareholders' equity, net interest margin, and efficiency ratios were all negatively impacted by lower net interest spread (i.e., the difference between the yield on earning assets and the cost of interest-bearing liabilities) for the first nine months of 2023 compared to the same period in 2022 and to the year ended December 31, 2022, as discussed in the *Net Interest Income* section, below. The efficiency ratio was also negatively impacted by higher operating expenses discussed in the *Noninterest Expenses* section below.

Net (charge-offs) recoveries were minimal for all periods presented.

See *Allowance for Credit Losses*, *Net Interest Income*, *Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

Net Interest Income

Net interest income for the three months ended September 30, 2023, was $119.7 million compared to $151.0 million for the same period of 2022, a decrease of $31.3 million or 20.72 percent. Net interest income for the nine months ended September 30, 2023, was $372.5 million compared to $459.8 million for the same period of 2022, a decrease of $87.3 million, or 18.99 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.11 percent and 1.18 percent, for the three and nine months ended September 30, 2023, a decrease of 37 and 39 basis points, respectively, compared to the same periods in the prior year.

The effects of changes in volume and interest rates on net interest income for the three and nine months ended September 30, 2023, as compared with the corresponding periods 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 September 30, 2023 vs. September 30, 2022			For the Nine Months Ended September 30, 2023 vs. September 30, 2022		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	$ 28,239	$ 96,827	$ 125,066	$ 92,830	$ 298,285	$ 391,115
Investments & Cash Equivalents	(4,448)	32,824	28,376	(6,799)	110,302	103,503
Other	2,172	1,446	3,618	8,405	3,622	12,027
Total Interest Income	25,963	131,097	157,060	94,436	412,209	506,645
Interest Expense:						
Interest-Bearing Liabilities	19,665	168,676	188,341	67,714	526,228	593,942
Changes in Net Interest Income	$ 6,298	$ (37,579)	$ (31,281)	$ 26,722	$ (114,019)	$ (87,297)

A significant volume of the Bank'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 calls and replaces any debt securities that result in cost savings. This temporarily increases net interest margin. The decline of net interest margin is due, in part, to net interest margin returning to a normal level following the decline in rates in early 2020.

Additionally, effective December 31, 2022, the Bank and Associations amended the repayment structure of the Direct Notes to decrease market value of equity sensitivity of the Bank and increase the market value of equity sensitivity of Associations. The restructuring resulted in a decline in Direct Note interest income and a corresponding decrease in interest expense for Associations. Beginning May 31, 2023, the Bank and Associations returned to the previous repayment structure of the Direct Notes in effect during 2022. In addition, the Bank issued longer-term debt during 2023 to manage the market value of equity sensitivity which resulted in a decline in net interest margin when compared to the prior year.

Provision for Credit Losses

AgFirst measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for credit losses so that appropriate reserves are maintained. Provision for credit losses, which includes the provision for loan loss and the provision for unfunded commitments, was a net expense of $743 thousand and $13.0 million for the three and nine months ended September 30, 2023, respectively, compared to a net expense of $1.0 million and $2.9 million, respectively, for the corresponding periods in 2022.

For the three and nine months ended September 30, 2023, the provision for loan losses included provision expense for specific reserves of $2.6 million and $17.3 million, respectively, related to a few isolated borrowers in the Capital Markets portfolio. For the three and nine months ended September 30, 2023 there was a provision reversal of general reserves of $1.7 million and $3.2 million, respectively, primarily as a result of an improvement in the loss given default (LGD) within the Correspondent Lending portfolio which resulted in a decrease in the required general reserves. For the three and nine months ended September 30, 2023, the provision for unfunded commitments was a net reversal of $127 thousand and net reversal of $1.1 million as a result of activity within the Capital Markets portfolio. Total net provision expense for the three months ended September 30, 2023 primarily related to provision expense for borrowers in the tree fruits and nuts segment ($3.4 million) and was partially offset by provision reversal for borrowers in the rural home loans segment ($1.9 million). Total provision expense for the nine months ended September 30, 2023 primarily related to provision expense for borrowers in the tree fruits and nuts ($14.3 million) and field crops ($1.0 million) segments and was partially offset by provision reversal for borrowers in the rural home loan ($1.1 million) segment.

For the three and nine months ended September 30, 2022, the provision for loan losses included provision expense for specific reserves of $308 thousand and $1.4 million, respectively, and provision expense for general reserves of $731 thousand and $1.5 million, respectively. Total net provision expense for the three months ended September 30, 2022 primarily related to expense for borrowers in the rural home loan ($515 thousand) and nursery/greenhouse ($379 thousand) segments. Total provision expense for the nine months ended September 30, 2022 primarily related to provision expense for borrowers in the rural home loan ($1.7 million) and nursery/greenhouse ($617 thousand) segments.

See the *Allowance for Credit Losses* section below and Note 2, *Loans and Allowance for Credit Losses,* in the Notes to the Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the Three Months Ended September 30,**			**For the Nine Months Ended September 30,**		
(dollars in thousands)	**2023**	**2022**	**Increase/ (Decrease)**	**2023**	**2022**	**Increase/ (Decrease)**
Loan fees	$ 3,416	$ 3,816	$ (400)	$ 9,939	$ 10,530	$ (591)
(Losses) gains on debt extinguishment	—	—	—	(3,711)	56	(3,767)
Gains (losses) on other transactions	717	(765)	1,482	1,111	(947)	2,058
Patronage refunds from other Farm Credit institutions	423	334	89	10,260	6,349	3,911
Other noninterest income	2,128	3,324	(1,196)	6,247	8,343	(2,096)
Total noninterest income	$ 6,684	$ 6,709	$ (25)	$ 23,846	$ 24,331	$ (485)

For the three and nine months ended September 30, 2023, noninterest income decreased $25 thousand and $485 thousand, respectively, compared to the corresponding periods in 2022. Line-item dollar variances greater than $2.0 million or unusual in nature are discussed below.

Losses on debt extinguishment increased $3.8 million for the nine months ended September 30, 2023, compared to the same periods in 2022. Debt issuance expense is amortized into interest expense over the contractual life of the underlying debt security. Debt is called to take advantage of favorable market interest rate changes. When debt securities are called prior to maturity, any unamortized issuance cost is expensed through gains (losses) on debt extinguishment. The amount of issuance cost expensed when a bond is called is dependent upon both the size and remaining maturity of the bond when called. Losses on called debt are more than offset by interest expense savings realized over the life of the replacement debt. Call options were exercised on bonds totaling $1.6 billion for the nine months ended September 30, 2023. There were no call options exercised on bonds during 2022; however, the Bank repurchased and subsequently cancelled one discount note that resulted in $56 thousand in gains during 2022. See *Net Interest Income* section above for further discussion.

For the nine months ended September 30, 2023, net gains on other transactions were $1.1 million compared to net losses of $947 thousand for the corresponding periods in the prior year for a change of $2.1 million. The increase when compared to the prior year is primarily due to increases in the market value of certain nonqualified retirement plan trust assets of $3.0 million held in other assets on the Balance Sheets.

For the nine months ended September 30, 2023, patronage refunds from other Farm Credit institutions increased $3.9 million compared to the corresponding period in 2022. The increase is primarily due to a change in the accounting methodology for patronage associated with certain participation relationships in which the Bank serves as intermediary between the buying and selling associations. This change resulted in $4.8 million of patronage income that was recorded when received in the first quarter of 2023. Under the former accrual methodology, this patronage would have been accrued in the preceding year. Patronage from other Farm Credit institutions, including Associations, reflects distributions of earnings on loans sold by AgFirst to those institutions.

For the nine months ended September 30, 2023, other noninterest income decreased by $2.1 million when compared to the same period in the prior year. This decrease is primarily due to higher income received in 2022 as a result of services provided, primarily system conversions, in relation to Association merger activity.

Noninterest Expenses

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses	**For the Three Months Ended September 30,**			**For the Nine Months Ended September 30,**		
(dollars in thousands)	**2023**	**2022**	**Increase/ (Decrease)**	**2023**	**2022**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 21,801	$ 22,231	$ (430)	$ 66,632	$ 59,941	$ 6,691
Occupancy and equipment	1,829	1,889	(60)	5,479	5,446	33
Insurance Fund premiums	6,821	6,900	(79)	20,410	19,710	700
Purchased services	16,077	14,073	2,004	44,144	41,881	2,263
Data processing	12,062	8,580	3,482	32,949	23,434	9,515
Other operating expenses	6,128	6,489	(361)	18,049	18,054	(5)
Losses from other property owned	155	(1)	156	155	(1)	156
Total noninterest expenses	$ 64,873	$ 60,161	$ 4,712	$ 187,818	$ 168,465	$ 19,353

Noninterest expenses for the three and nine months ended September 30, 2023 increased $4.7 million and $19.4 million, respectively, compared to the corresponding periods in 2022. Line-item dollar variances greater than $2.0 million or unusual in nature are discussed below.

Salaries and employee benefits increased $6.7 million for the nine months ended September 30, 2023 when compared to the same period in 2022. The increase is primarily attributed to a 4.9 percent increase in headcount from September 30, 2022 to September 30, 2023 to support the Bank's technology initiatives plus normal salary administration.

As a result of significant technology initiatives, data processing and purchased services expenses increased $3.5 million and $2.0 million, respectively, for the three months ended September 30, 2023, and $9.5 million and $2.3 million, respectively, for the nine months ended September 30, 2023 compared to the same periods in 2022. The data processing increases 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. The purchased services increases resulted from contractors and consultants utilized in the development and implementation of new or enhanced systems including a new mortgage loan origination system implemented during the first quarter of 2023 and a new loan accounting system that was implemented in the third quarter of 2023. The Bank operates as the centralized service provider for the District Associations which results in costs incurred at the Bank that are expected to be offset through efficiencies gained at District Associations.

FINANCIAL CONDITION

Loan Portfolio

Loans outstanding totaled $33.4 billion at September 30, 2023, an increase of $2.0 billion, or 6.20 percent, compared to total loans outstanding at December 31, 2022 and an increase of $2.4 billion, or 7.73 percent, since September 30, 2022.

AgFirst's loan portfolio consists of direct loans to District Associations (Direct Notes), Capital Markets loans (loan participations/syndications purchased), Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to Other Financing Institutions (OFIs) as shown below:

Loan Portfolio	**September 30,**	**December 31,**	**September 30,**	**September 2023 Compared to December 2022**		**September 2023 Compared to September 2022**	
(dollars in thousands)	**2023**	**2022**	**2022**	**$ Change**	**% Change**	**$ Change**	**% Change**
Direct Notes*	$ 22,565,427	$ 21,217,281	$ 21,070,822	$1,348,146	6.35 %	$1,494,605	7.09 %
Capital Markets*	7,421,313	6,927,516	6,669,670	493,797	7.13 %	751,643	11.27 %
Correspondent Lending	3,259,907	3,157,675	3,107,963	102,232	3.24 %	151,944	4.89 %
Loans to OFIs	174,693	166,260	174,037	8,433	5.07 %	656	0.38 %
Total	$ 33,421,340	$ 31,468,732	$ 31,022,492	$1,952,608	6.20 %	$2,398,848	7.73 %

	Portfolio Distribution		
	September 30, 2023	**December 31, 2022**	**September 30, 2022**
Direct Notes*	67.52 %	67.42 %	67.92 %
Capital Markets*	22.21 %	22.01 %	21.50 %
Correspondent Lending	9.75 %	10.04 %	10.02 %
Loans to OFIs	0.52 %	0.53 %	0.56 %
Total	100.00 %	100.00 %	100.00 %

**Capital Markets and Direct Notes are presented net of participations sold*

As noted in the table above, a significant portion of the Bank's loan portfolio is comprised of Direct Notes to District Associations. Since Direct Notes fund District Associations' lending activities, increases and decreases in the Direct Note portfolio are closely linked to the commodities and geographic distribution of the District Associations' loan portfolios.

Loan growth in the combined District portfolio since December 31, 2022, was primarily due to growth in the forestry, utilities, and processing segments. Compared to September 30, 2022, the year-over-year increase in loan growth was primarily in the forestry, utilities, processing and rural home loans 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. Growth for the remainder of the year may be challenged due to market conditions. See *Direct Notes*, *Capital Markets*, and *Correspondent Lending* sections below for further discussion of loan variances.

Credit Quality

Credit quality of AgFirst's loans is shown below:

	Total Loan Portfolio Credit Quality as of:		
Classification	**September 30, 2023**	**December 31, 2022***	**September 30, 2022***
Acceptable	99.00 %	99.52 %	99.59 %
OAEM **	0.30 %	0.18 %	0.22 %
Substandard/doubtful/loss	0.70 %	0.30 %	0.19 %

**Periods prior to the adoption of CECL on January 1, 2023 are calculated using recorded investment, which includes accrued interest. Accrued interest is excluded from the calculation in the current period. This change does not have a significant impact on the comparability of the figures presented.*
***Other Assets Especially Mentioned.*

The table above reflects a decline in credit quality during 2023 compared to both prior periods presented, primarily as a result of the classification of a single Direct Note as Substandard (see further discussion in *Direct Notes* section below). The collection on the full Direct Note amount is expected. Excluding the change in Direct Note, Bank credit quality declined slightly when compared to the prior periods presented, primarily as the result of several relationships in the Capital Markets portfolio being downgraded during 2023. Credit quality 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. See the *Direct Notes*, *Capital Markets*, and *Correspondent Lending* sections below for further discussion of the Bank's loan portfolio and credit quality.

Direct Notes

AgFirst's primary business is to provide funding, operational support, and technology services to District Associations. Each Association, in addition to the Bank, is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (FCA). AgFirst provides a revolving line of credit, referred to as a Direct Note, to each of the District Associations. Each of the Associations funds its lending and general corporate activities primarily by borrowing under its Direct Note. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association. Each GFA contains minimum borrowing base margin, capital, and earnings requirements that must be maintained by the Association.

At September 30, 2023, the total Direct Note volume outstanding was $22.6 billion, an increase of $1.3 billion, or 6.35 percent, compared to December 31, 2022. Cash patronage payments to Associations of approximately $190.9 million reduced Association Direct Notes at the beginning of 2023 by 0.90 percent. Compared to September 30, 2022, Direct Note volume increased $1.5 billion, or 7.09 percent. See the *Loan Portfolio* section above for the primary reasons for the change in Direct Notes.

	Direct Note Credit Quality as of:					
	September 30, 2023		**December 31, 2022***		**September 30, 2022***	
Classification	**% Total**	**# Total****	**% Total**	**# Total**	**% Total**	**# Total**
Acceptable	99.47 %	15	100.00 %	18	100.00 %	18
OAEM	— %	—	— %	—	— %	—
Substandard/doubtful/loss	0.53 %	1	— %	—	— %	—

**Periods prior to the adoption of CECL on January 1, 2023 are calculated using recorded investment, which includes accrued interest. Accrued interest is excluded from the calculation in the current period.*
***Decrease in the number of Associations is a result of mergers. See further discussion in Note 1 to the Financial Statements.*

During 2023, one Association (0.53 percent of the total Direct Note) began operating under a special credit agreement with the Bank pursuant to the GFA. During the first quarter, this Association's Direct Note was downgraded to OAEM and then was subsequently downgraded from OAEM to Substandard during the second quarter. This Direct Note was classified as acceptable for all prior periods presented. The remaining Direct Notes were classified as Acceptable and operating in compliance with all financial covenants of the GFA for all periods presented.

Presently, collection of the full Direct Note amount due is expected from all Associations, including the Association classified as Substandard, in accordance with the contractual terms of the debt arrangements, and no allowance has been recorded for Direct Notes. Virtually all assets of the Associations are pledged as collateral for their respective Direct Notes. In the opinion of management, all Association Direct Notes are adequately collateralized. The risk funds of an Association, including both capital and the allowance for credit losses, also protect the interest of the Bank should a Direct Note default.

Capital Markets

The Capital Markets portfolio consists of loan participations and syndications purchased primarily from other System institutions. As of September 30, 2023, this portfolio totaled $7.4 billion, an increase of $493.8 million, or 7.13 percent, from December 31, 2022, and an increase of $751.6 million, or 11.27 percent, from September 30, 2022. The increase in loan growth from both periods was primarily due to growth in the forestry and utilities segments. See *Loan Portfolio* section above for discussion of the primary factors driving growth in the portfolio.

AgFirst employs a number of management techniques to limit credit risk, including underwriting standards, limits on the amounts of loans purchased from a single originator, and maximum hold positions to a single borrower and commodity. Although the Capital Markets portfolio is comprised of a small number of relatively large loans, it is diversified both geographically and on a commodity basis. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

Credit quality at September 30, 2023 declined slightly compared to the previous periods presented due to isolated borrowers impacted by current market conditions. Credit quality for the Capital Markets portfolio is shown in the following chart:

	Capital Markets Credit Quality as of:		
Classification	**September 30, 2023**	**December 31, 2022***	**September 30, 2022***
Acceptable	97.37 %	98.06 %	98.30 %
OAEM	1.35 %	0.83 %	1.03 %
Substandard/doubtful/loss	1.28 %	1.11 %	0.67 %

**Periods prior to the adoption of CECL on January 1, 2023 are calculated using recorded investment, which includes accrued interest. Accrued interest is excluded from the calculation in the current period.*

Correspondent Lending

The Correspondent Lending portfolio consists primarily of purchased first lien residential mortgages. As of September 30, 2023, the Correspondent Lending portfolio totaled $3.3 billion, an increase of $102.2 million, or 3.24 percent, from December 31, 2022, and an increase of $151.9 million, or 4.89 percent, from September 30, 2022. The net increase in both periods resulted from growth in the construction-to-permanent financing loans.

As of September 30, 2023, $566.1 million, or 17.37 percent of loans in the Correspondent Lending portfolio include a long-term standby commitment to purchase (LTSP). The LTSPs from the Federal National Mortgage Association (Fannie Mae) and/or Federal Agricultural Mortgage Corporation (Farmer Mac), give AgFirst the right to deliver delinquent loans to the guarantor at par. The Bank ceased participation in the LTSP program during 2013. The remaining loans are included in the Bank's allowance for credit losses methodology related to this portfolio.

Despite the cessation of pandemic-related forbearance programs, credit quality for the Correspondent Lending portfolio has remained relatively stable as shown in the following chart:

	Correspondent Lending Credit Quality as of:		
Classification	**September 30, 2023**	**December 31, 2022***	**September 30, 2022***
Acceptable	99.43 %	99.51 %	99.56 %
Substandard/doubtful/loss	0.57 %	0.49 %	0.44 %

**Periods prior to the adoption of CECL on January 1, 2023 are calculated using recorded investment, which includes accrued interest. Accrued interest is excluded from the calculation in the current period.*

Nonaccrual Loans

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 Bank totaled $54.5 million at September 30, 2023 compared to $37.1 million at December 31, 2022. The increase is primarily related to one relationship (tree fruits and nuts) of $20.8 million that transitioned into nonaccrual status during 2023. The increase in nonaccrual loans was partially offset by the sale of one relationship (field crops) that resulted in $4.3 million in charge-offs during the period. Nonaccrual loans were 0.16 percent and 0.12 percent of total loans outstanding at September 30, 2023 and December 31, 2022, respectively.

	Nonaccrual by Eligibility			
	September 30, 2023		**December 31, 2022**	
	Total Amount	**% of Total**	**Total Amount**	**% of Total**
Tree Fruits and Nuts	$ 20,757	38.08 %	$ —	— %
Rural Home Loans	20,252	37.15 %	17,210	46.37 %
Field Crops	7,058	12.95 %	13,339	35.94 %
Utilities	2,937	5.39 %	2,966	7.99 %
Grains	2,689	4.93 %	3,143	8.47 %
Other Real Estate	820	1.50 %	460	1.23 %
Total	$ 54,513	100.00 %	$ 37,118	100.00 %

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. At September 30, 2023, the OPO balance consisted of one real estate holding in the rural home loan segment totaling $260 thousand. The Bank had no OPO at December 31, 2022.

Allowance for Credit Losses

Upon adoption of CECL, the Bank recorded a Day 1 increase in the allowance for credit losses (ACL) of $15.7 million, which included a $12.2 million increase in the allowance for loan losses and a $3.5 million increase in the allowance for unfunded commitments due to the requirement to estimate losses over the contractual life of financial assets. These increases were primarily in the rural residential mortgage portfolio. The Day 1 increase in the ACL was recorded as a reduction of unallocated retained earnings as outlined by accounting guidance. See further discussion on the adoption of CECL in *Capital*, *Critical Accounting Policies* and *Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements.*

The ACL was $51.9 million at September 30, 2023, as compared with $27.6 million at December 31, 2022. The increase is outlined in the table below:

Balance at December 31, 2022	$	27,567
Cumulative effect of change in accounting principle		15,654
Charge-offs		(4,545)
Recoveries		151
Provision for credit losses		13,029
Balance at September 30, 2023	$	51,856

The ACL at September 30, 2023 included reserves of $16.4 million for loans individually evaluated for credit loss, $31.5 million for loans collectively evaluated for credit loss, and $3.9 million in allowance for unfunded commitments. See *Provision for Credit Losses* and *Nonaccrual Loans* sections for additional details regarding provision expense and net charge-offs for the nine months ended September 30, 2023.

	Allowance for Credit Losses by Eligibility			
	September 30, 2023		December 31, 2022	
	Total Amount	% of Total	Total Amount	% of Total
Rural Home Loans	$ 17,981	34.68 %	$ 6,194	23.76 %
Tree Fruits and Nuts	15,261	29.43 %	1,564	6.00 %
Processing	4,592	8.85 %	4,219	16.18 %
Utilities	3,385	6.53 %	2,374	9.11 %
Forestry	1,844	3.56 %	1,751	6.72 %
Field Crops	1,030	1.99 %	4,056	15.56 %
Nursery/Greenhouse	775	1.50 %	1,226	4.70 %
Other	3,067	5.90 %	4,686	12.54 %
Total Allowance for Loan Losses	47,935	92.44 %	$ 26,070	94.57 %
Allowance for Unfunded Commitments	3,921	7.56 %	1,497	5.43 %
Total Allowance for Credit Losses	$ 51,856	100.00 %	$ 27,567	100.00 %

The allowance for credit losses was 0.16 percent of total loans outstanding at September 30, 2023, and 0.09 percent at December 31, 2022. See Note 2, *Loans and Allowance for Credit Losses*, in the Notes to the Financial Statements for further information.

Interest Rate Risk Management

Interest rate risk is the risk of loss of future earnings or long-term market value of equity that may result from changes in interest rates. AgFirst uses a variety of analytical techniques to manage the complexities associated with offering numerous loan options. Interest rate sensitivity gap analysis is used to monitor the repricing and maturity characteristics of AgFirst's interest-earning assets and interest-bearing liabilities. Simulation analysis is used to determine the potential change in net interest income and in the market value of equity under various possible future market interest rate environments.

AgFirst and the District Associations adhere to a philosophy that loans should be priced competitively in the market and that loan rates and spreads should be contractually established at loan closing such that a borrower is not subject to rate changes at the discretion of management or boards of directors. Therefore, District Association variable-rate and adjustable-rate loans are generally indexed to market rates, and fixed-rate loans are priced based on market rates. Loan products offered by the Associations include Prime- or other reference rate-indexed variable-rate loans, one-, three-, and five-year Treasury-indexed adjustable-rate loans, and fixed-rate loans. Variable-rate and adjustable-rate loans are offered with or without caps. Terms are available for up to 30 years. While offering the above variable rate loan types, the vast majority of loans are fixed-rate and funded by fixed-rate long-term debt A variety of repayment options are offered, with the ability to pay on a monthly, quarterly, semi-annual, or annual frequency. In addition, customized repayment schedules may be negotiated to fit a borrower's unique circumstances.

The following tables represent changes in AgFirst's market value of equity and projected change over the next twelve months in net interest income for various interest rate movements as of September 30, 2023 and December 31, 2022. The upward and downward shocks generally capture the effects of embedded options and convexity within the assets and liabilities based on movements in interest rates.

	September 30, 2023			
	-200	**-100**	**+100**	**+200**
Change in net interest income	10.44 %	1.33 %	3.31 %	5.34 %
Change in market value of equity	34.50 %	12.75 %	(8.15)%	(13.67)%

	December 31, 2022			
	-200	**-100**	**+100**	**+200**
Change in net interest income	(3.26)%	(2.14)%	3.72 %	7.65 %
Change in market value of equity	20.05 %	7.11 %	(4.18)%	(5.44)%

The change in the -200 and -100 market value of equity sensitivities is primarily the result of the amended repayment structure of the Direct Note that was in place from December 31, 2022 to May 31, 2023. See the *Net Interest Income* section for further discussion on the repayment structure.

LIBOR Transition

U.S. dollar LIBOR settings (including with 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 Bank'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 Bank 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 Bank and Associations' variable-rate financial instruments outstanding with LIBOR exposure as of September 30, 2023 equaled 0.2% of total Bank assets, and 0.1% of total Combined Association assets, respectively.

Liquidity and Funding Sources

One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. Along with normal cash flows associated with lending operations, AgFirst has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Funding Corporation; and cash and investments.

The principal source of liquidity for AgFirst, unlike commercial banks and other depository institutions, comes from its ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the System banks. AgFirst continually raises funds in the debt markets to support its mission, to repay maturing Systemwide Debt Securities, and to meet other obligations.

The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. However, the Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America.

The Farm Credit Act and Farm Credit Administration regulations require, as a condition for a Bank's participation in the issuance of Systemwide Debt Securities, that the Bank maintain specified eligible assets, referred to in the Farm Credit Act as "collateral," at least equal in value (100.00 percent) to the total amount of the debt securities outstanding for which it is primarily liable. At September 30, 2023 and December 31, 2022, the statutory collateral ratio was 102.88 percent and 103.63 percent, respectively. The decline in the ratio is due to the increase in unrealized losses on the investment portfolio. See below for further discussion on the unrealized losses.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank (FFB), a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the FFB could advance funds to the FCSIC. Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and will remain in full force and effect until terminated by either the FCSIC or the FFB. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

As of September 30, 2023, Moody's Investor Service (Moody's) assigned long-term debt ratings for the System of Aaa and short-term debt ratings of P-1. The Moody's rating is the highest ratings available from the three leading rating agencies. S&P Global Ratings (S&P) maintains the long-term debt rating of the System at AA+, which directly corresponds to its AA+ long-term sovereign credit rating of the U.S. government. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's status as a GSE.

On August 1, 2023, Fitch downgraded the long-term credit rating of U.S. Government (sovereign) debt one level to AA+ from the highest rating of AAA, while leaving the short-term credit rating unchanged. As a consequence of this downgrade action, on August 2, 2023, Fitch downgraded the long-term credit rating of System debt to AA+ due to the implied link between the credit rating of the System and the U.S. Government given the System's status as a GSE. The short-term credit rating of the System was not changed. A further reduction in the System's credit rating may increase borrowing costs and limit access to the capital markets, reducing the flexibility to issue debt across the full spectrum of the yield curve. However, AgFirst anticipates continued access to funding necessary to support the District's and Bank's needs.

At September 30, 2023, AgFirst had $41.6 billion in total debt outstanding compared to $40.1 billion at December 31, 2022, an increase of $1.5 billion, or 3.67 percent which coincides with changes in the loan and investment portfolio balances.

To mitigate the risk of a disruption in the Bank's ability to issue debt securities, the Bank has investment securities repurchase agreements in place with several commercial banks for commitments totaling approximately $6.1 billion. A standard repurchase agreement involves the acquisition of immediately available funds through the sale of securities with a simultaneous commitment to repurchase the same securities on a certain date within one year at a specified price, including interest at an agreed upon rate. The Bank's access to the funds available from the repurchase agreements is tested on a periodic basis in order to ensure access to capital, if needed. In addition, the System has established lines of credit in the event contingency funding is needed to meet obligations of System banks.

Cash and cash equivalents, which increased $73.1 million from December 31, 2022 to a total of $1.2 billion at September 30, 2023, consist primarily of cash on deposit and money market securities that are short-term in nature (maturities of overnight to 90 days). Incremental movements in cash and cash equivalents balances between reporting periods are due primarily to changes in liquidity needs.

Investments in debt securities totaled $8.4 billion, or 19.33 percent of total assets at September 30, 2023, compared to $9.1 billion, or 21.57 percent of total assets as of December 31, 2022, a decrease of $679.3 million, or 7.48 percent. Nearly all investments, $8.4 billion as of September 30, 2023, are classified as being available-for-sale and include $140.3 million in U.S. Treasury securities, $3.6 billion in U.S. government guaranteed securities, $4.1 billion in U.S. government agency guaranteed securities, and $600.4 million in non-agency asset-backed securities. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited. See Note 3, *Investments*, in the Notes to the Financial Statements for further information regarding types of securities that may be held under applicable FCA guidelines.

Management maintains an available-for-sale liquidity investment portfolio size within regulatory and policy guidelines which provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its quarterly average daily balance of loans outstanding. Based upon FCA guidelines, at September 30, 2023, the Bank's eligible available-for-sale investments were 30.46 percent of its quarterly average daily balance of loans outstanding.

FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high-quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

The FCA classifies eligible liquidity investments according to three liquidity quality levels with level 1 being the most liquid. The first 15 days of minimum liquidity coverage are met using only level 1 instruments, which include cash and cash equivalents. Days 16 through 30 of minimum liquidity coverage are met using level 1 and level 2 instruments. Level 2 consists primarily of U.S. government guaranteed securities. Days 31 through 90 are met using level 1, level 2, and level 3 securities. Level 3 consists primarily of U.S. government agency investments. Additionally, a supplemental liquidity buffer in excess of the 90-day minimum liquidity reserve is set to provide coverage to at least 120 days.

At September 30, 2023, AgFirst met each of the individual level criteria above and had a total of 197 days of maturing debt coverage compared to 221 days at December 31, 2022. Cash provided by the Bank's operating activities is an additional source of liquidity for the Bank that is not reflected in the coverage calculation. In the fourth quarter of 2022, the Bank lowered its target coverage level to 180 days of liquidity which allows the Bank to optimize capital and reduce the Bank's relative exposure to price volatility inherent in the investment portfolio.

At September 30, 2023, there were $1.2 billion in net unrealized losses in investments, compared to $994.2 million at December 31, 2022. The net unrealized losses are the result of the significant increase in interest rates during 2022 and 2023 which decreased the fair value of existing available-for-sale fixed-rate investment securities. It is anticipated that these securities will be held until maturity with no loss realized. The Bank approximates it could cover 30 days of maturing debt through the sale of available-for-sale securities before recognizing a loss on sale of assets in the event the Bank could not access the markets to issue debt or raise cash through repurchase agreements.

See Note 3, *Investments*, and Note 4, *Debt*, in the Notes to the Financial Statements for further information.

Capital

Total shareholders' equity decreased $18.0 million, or 1.24 percent, from December 31, 2022 to $1.4 billion at September 30, 2023. This decrease is primarily attributed to an increase in the unrealized loss position of the Bank's available-for-sale investment portfolio of $192.6 million and a decrease in retained earnings of $15.7 million from the cumulative effect adjustment for the adoption of CECL effective January 1, 2023. This is partially offset by an increase in retained earnings from net income of $195.5 million.

On October 27, 2023, the Board of Directors approved an increase to the Association minimum required investment in AgFirst from 1.00 percent of the average Direct Note balance to 1.50 percent effective October 31, 2023. This resulted in an increase to the Bank's capital stock of $132.3 million to $432.9 million.

Regulatory Capital Ratios

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. The requirements are determined by regulatory ratios as defined by the FCA.

AgFirst's regulatory ratios are shown in the following table:

	Regulatory Minimum, Including Buffer*	9/30/23	12/31/22	9/30/22
Permanent Capital Ratio	7.00%	14.34%	15.34%	15.38%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	14.30%	15.32%	15.36%
Tier 1 Capital Ratio	8.50%	14.30%	15.32%	15.36%
Total Regulatory Capital Ratio	10.50%	14.59%	15.46%	15.50%
Tier 1 Leverage Ratio**	5.00%	5.84%	6.09%	5.96%
Unallocated Retained Earnings (URE) and URE Equivalents	1.50%	4.57%	5.37%	5.24%

** Includes full capital conservation buffers.*
*** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

The permanent capital, CET1 capital, tier 1 capital, and total capital 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 a risk-adjusted asset base. 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 ratio and URE and URE equivalents component of the tier 1 leverage ratio do not incorporate any risk-adjusted weighting of assets. These 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.

For all periods presented, AgFirst exceeded minimum regulatory requirements for all of the ratios. The Bank's capital ratios were lower at September 30, 2023 compared to December 31, 2022 due primarily to the declaration of 2022 cash patronage of $212.9 million on December 31, 2022, which represented 51.67 percent of 2022 net income. Additionally, the increase in total assets and risk-weighted assets contributed to the decrease when comparing to both December 31, 2022 and September 30, 2022.

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 of AgFirst Farm Credit Bank for recently adopted accounting pronouncements. There are no recently issued accounting pronouncements that have yet to be adopted that are expected to have a material impact to the Bank's Financial Statements.

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 a direct-lender association 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 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 permit an exclusion for the CECL day 1 adjustment from the “safe harbor” deemed prior approval provision for capital 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.

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.

EXECUTIVE MANAGEMENT DEPARTURE

Effective November 7, 2023, Stephen F. Ciambrone has resigned his position as Executive Vice President and Chief Information Officer and will remain in an advisory role until December 1, 2023. Irvinder Singh, previously Director - Technology, has been named as interim Chief Information Officer effective immediately.

NOTE: Shareholder investment in a District 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, Controller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank’s website, *www.agfirst.com*. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Balance Sheets

(dollars in thousands)	**September 30, 2023**	**December 31, 2022**
	(unaudited)	*(audited)*
Assets		
Cash	**$ 599,488**	$ 746,392
Cash equivalents	**570,000**	350,000
Investments in debt securities:		
Available-for-sale (amortized cost of $9,570,770 and $10,055,933, respectively)	**8,384,016**	9,061,750
Held-to-maturity (fair value of $11,734 and $13,500, respectively)	**12,472**	14,058
Total investments in debt securities	**8,396,488**	9,075,808
Loans	**33,421,340**	31,468,732
Allowance for loan losses	**(47,935)**	(26,070)
Net loans	**33,373,405**	31,442,662
Accrued interest receivable	**147,850**	125,349
Accounts receivable	**67,710**	89,980
Equity investments in other Farm Credit institutions	**87,783**	88,081
Premises and equipment, net	**149,831**	122,578
Other property owned	**260**	—
Other assets	**34,301**	31,870
Total assets	**$ 43,427,116**	$ 42,072,720
Liabilities		
Systemwide bonds payable	**$ 38,352,043**	$ 35,233,552
Systemwide notes payable	**3,262,499**	4,906,369
Accrued interest payable	**267,031**	137,220
Accounts payable	**62,854**	298,139
Other liabilities	**49,112**	45,821
Total liabilities	**41,993,539**	40,621,101
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Capital stock and participation certificates	**300,539**	300,539
Additional paid-in-capital	**63,668**	63,668
Retained earnings		
Allocated	**123,413**	123,413
Unallocated	**2,132,410**	1,957,897
Accumulated other comprehensive loss	**(1,186,453)**	(993,898)
Total shareholders' equity	**1,433,577**	1,451,619
Total liabilities and equity	**$ 43,427,116**	$ 42,072,720

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Interest Income				
Investments & Cash Equivalents	**$ 82,408**	$ 54,032	**$ 236,070**	$ 132,567
Loans	**370,853**	245,787	**1,023,847**	632,732
Other	**4,721**	1,103	**13,387**	1,360
Total interest income	**457,982**	300,922	**1,273,304**	766,659
Interest Expense	**338,295**	149,954	**900,804**	306,862
Net interest income	**119,687**	150,968	**372,500**	459,797
Provision for credit losses	**743**	1,039	**13,029**	2,878
Net interest income after provision for credit losses	**118,944**	149,929	**359,471**	456,919
Noninterest Income				
Loan fees	**3,416**	3,816	**9,939**	10,530
(Losses) gains on debt extinguishment	**—**	—	**(3,711)**	56
Gains (losses) on other transactions	**717**	(765)	**1,111**	(947)
Patronage refunds from other Farm Credit institutions	**423**	334	**10,260**	6,349
Other noninterest income	**2,128**	3,324	**6,247**	8,343
Total noninterest income	**6,684**	6,709	**23,846**	24,331
Noninterest Expenses				
Salaries and employee benefits	**21,801**	22,231	**66,632**	59,941
Occupancy and equipment	**1,829**	1,889	**5,479**	5,446
Insurance Fund premiums	**6,821**	6,900	**20,410**	19,710
Purchased services	**16,077**	14,073	**44,144**	41,881
Data processing	**12,062**	8,580	**32,949**	23,434
Other operating expenses	**6,128**	6,489	**18,049**	18,054
Losses (gains) from other property owned	**155**	(1)	**155**	(1)
Total noninterest expenses	**64,873**	60,161	**187,818**	168,465
Net income	**$ 60,755**	$ 96,477	**$ 195,499**	$ 312,785
Other comprehensive loss:				
Unrealized losses on investments	**(192,456)**	(336,278)	**(192,571)**	(988,598)
Change in value of cash flow hedges	**—**	(13)	**—**	(31)
Employee benefit plans adjustments	**5**	175	**16**	525
Other comprehensive loss (Note 5)	**(192,451)**	(336,116)	**(192,555)**	(988,104)
Comprehensive income (loss)	**$ (131,696)**	$ (239,639)	**$ 2,944**	$ (675,319)

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

Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-In-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2021	$ 32,500	$ 299,131	$ 63,673	$ 416	$ 1,888,462	$ 18,598	$ 2,302,780
Comprehensive income (loss)					312,785	(988,104)	(675,319)
Redemption of perpetual preferred stock	(32,500)		(5)				(32,505)
Dividends paid on perpetual preferred stock					(271)		(271)
Retained earnings retired				(3)			(3)
Patronage distribution adjustment					(1,862)		(1,862)
Balance at September 30, 2022	$ —	$ 299,131	$ 63,668	$ 413	$ 2,199,114	$ (969,506)	$ 1,592,820
Balance at December 31, 2022	$ —	$ 300,539	$ 63,668	$ 123,413	$ 1,957,897	$ (993,898)	$ 1,451,619
Cumulative effect of a change in accounting principle					**(15,654)**		**(15,654)**
Comprehensive income (loss)					**195,499**	**(192,555)**	**2,944**
Cash patronage					**(4,854)**		**(4,854)**
Patronage distribution adjustment					**(478)**		**(478)**
Balance at September 30, 2023	**$ —**	**$ 300,539**	**$ 63,668**	**$ 123,413**	**$ 2,132,410**	**$ (1,186,453)**	**$ 1,433,577**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the Nine Months Ended September 30, 2023	2022
Cash flows from operating activities:		
Net income	**$ 195,499**	$ 312,785
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**17,415**	12,491
Amortization of net deferred loan (fees) costs and (discount accretion) premium amortization	**(2,785)**	1,586
(Discount) premium amortization on investment securities	**(869)**	6,344
Discount accretion on bonds and notes	**155,655**	41,824
Provision for credit losses	**13,029**	2,878
Losses on other property owned, net	**—**	(1)
Losses (gains) on debt extinguishment	**3,711**	(56)
(Gains) losses on other transactions	**(1,111)**	947
Net change in loans held for sale	**(24)**	—
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	**(22,501)**	(25,541)
Decrease in accounts receivable	**22,270**	33,670
Increase in accrued interest payable	**129,811**	74,452
(Decrease) increase in accounts payable	**(22,411)**	1,802
Change in other, net	**(558)**	(2,540)
Total adjustments	**291,632**	147,856
Net cash provided by operating activities	**487,131**	460,641
Cash flows from investing activities:		
Investment securities purchased	**(587,074)**	(2,607,230)
Proceeds from maturities and prepayments of investment securities	**1,074,692**	1,781,861
Net increase in loans	**(1,954,478)**	(2,489,293)
Decrease (increase) in equity investments in other Farm Credit System institutions	**298**	(191)
Net increase in premises and equipment	**(44,670)**	(37,250)
Proceeds from sale of premises and equipment	**148**	80
Proceeds from sale of other property owned	**—**	1
Net cash used in investing activities	**(1,511,084)**	(3,352,022)
Cash flows from financing activities:		
Bonds and notes issued	**17,332,605**	17,194,594
Bonds and notes retired	**(16,017,350)**	(13,664,000)
Redemption of perpetual preferred stock	**—**	(32,505)
Distribution to shareholders	**(218,206)**	(465,417)
Dividends paid on perpetual preferred stock	**—**	(271)
Retained earnings retired	**—**	(3)
Net cash provided by financing activities	**1,097,049**	3,032,398
Net increase in cash and cash equivalents	**73,096**	141,017
Cash and cash equivalents, beginning of period	**1,096,392**	1,025,288
Cash and cash equivalents, end of period	**$ 1,169,488**	$ 1,166,305
Supplemental schedule of non-cash activities:		
Receipt of property in settlement of loans	**$ 260**	$ —
Change in unrealized losses on investments, net	**(192,571)**	(988,598)
Cumulative effect of a change in accounting principle	**(15,654)**	—
Employee benefit plans adjustments	**(16)**	(525)
Supplemental information:		
Interest paid	**$ 615,339**	$ 190,586

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

Notes to the Financial Statements

(unaudited)

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

Organization

The accompanying financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank). AgFirst and its related Agricultural Credit Associations (Associations or District Associations) are collectively referred to as the AgFirst District (District). Descriptions of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the Bank as of and for the year ended December 31, 2022 are contained in the 2022 Annual Report to Shareholders. These unaudited interim financial statements should be read in conjunction with the latest Annual Report to Shareholders.

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 the merged Association were $2.7 billion as of September 30, 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 the merged entity were $4.2 billion as of September 30, 2023.

The merger activities listed above have not and are not expected to have a material impact on the Bank's Balance Sheet and Results of Operations.

Basis of Presentation

In the opinion of management, the accompanying 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 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 Bank'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*), investment securities (Note 3, *Investments*), 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 Bank 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 previous 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:

(dollars in thousands)	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for loan losses	$ 26,070	$ 12,162	$ 38,232
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 1,497	$ 3,492	$ 4,989
Retained Earnings:			
Unallocated retained earnings	$ 1,957,897	$ (15,654)	$ 1,942,243

Investments
Upon adoption of the CECL guidance, investments held-to-maturity are presented net of an allowance for credit losses on investments, if any. The guidance also amended the previous other-than-temporary impairment (OTTI) model for investments available-for-sale to incorporate an allowance for credit losses.

After consideration of the new guidance, the Bank determined that no allowance for credit losses on investments was necessary. The Bank will continue to evaluate the need for an allowance for credit losses on investments on an ongoing basis.

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 Bank 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 Balance Sheets. The Bank also elected to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected.

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

Collateral Dependent Loans
Collateral dependent loans are loans secured by collateral, including but not limited to agricultural real estate, crop inventory, equipment, and livestock. CECL requires an entity to measure the expected credit losses based on fair value of the collateral at the reporting date when the entity determines that foreclosure is probable. Additionally, the Bank 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 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 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 Loan Losses
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 Bank 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 Bank'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 share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant risk characteristics include loan type, commodity, credit quality rating, delinquency category or business segment or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default, based on the migration of loans from performing to loss by credit quality rating or delinquency buckets using historical life-of-loan analysis periods for loan types, and the severity of loss, based on the aggregate net lifetime losses incurred per loan pool.

The component of the 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:

a. lending policies and procedures;
b. national, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
c. the nature of the loan portfolio, including the terms of the loans;
d. the experience, ability and depth of the lending management and other relevant staff;
e. the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
f. the quality of the loan review and process;
g. the value of underlying collateral for collateral-dependent loans;
h. the existence and effect of any concentrations of credit and changes in the level of such concentrations; and
i. 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 Bank's macroeconomic forecast includes a weighted selection of the Moody's baseline, upside 10th percent and downside 90th percent scenarios over a reasonable and supportable forecast period of three years. Subsequent to the forecast period of three years, the Bank reverts to long run historical loss experience over 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 Bank 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 Bank 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 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 Bank 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 by the Bank.

Note 2 — Loans and Allowance for Credit Losses

A summary of loans outstanding at period end follows:

(dollars in thousands)	September 30, 2023	December 31, 2022
Direct Notes	$ 22,565,427	$ 21,217,281
Real estate mortgage	1,136,030	1,163,090
Production and intermediate-term	1,254,591	1,245,308
Agribusiness:		
Loans to cooperatives	512,526	574,334
Processing and marketing	2,022,919	1,932,474
Farm-related business	89,474	127,789
Rural infrastructure:		
Communication	757,151	680,224
Power and water/waste disposal	1,637,617	1,208,373
Rural residential real estate	3,152,520	3,044,026
Other:		
International	113,160	104,238
Lease receivables	401	388
Loans to other financing institutions (OFIs)	174,693	166,260
Other (including Mission Related)	4,831	4,947
Total loans	$ 33,421,340	$ 31,468,732

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations (Direct Notes). These notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore, the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly. The risk funds of an Association, including both capital and the allowance for credit losses, also protect the interest of the Bank.

The Bank may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. During the first nine months of 2023, the Bank purchased $322.5 million of residential mortgage loans from various Farm Credit System (System) associations and sold $26.0 million from the portfolio. These amounts are not included in the table below. 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	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct Notes	$ —	$ —	$ —	$ 1,453,764	$ —	$ —	$ —	$ 1,453,764
Real estate mortgage	1,201,083	228,155	369,996	303,689	5,367	14,750	1,576,446	546,594
Production and intermediate-term	1,485,270	474,465	940,336	915,931	238,959	16,500	2,664,565	1,406,896
Agribusiness	615,858	1,044,248	1,639,569	527,084	1,946,278	—	4,201,705	1,571,332
Rural infrastructure	—	583,556	3,022,674	—	—	—	3,022,674	583,556
Other	4,774	76,474	190,286	—	—	—	195,060	76,474
Total	$ 3,306,985	$ 2,406,898	$ 6,162,861	$ 3,200,468	$ 2,190,604	$ 31,250	$ 11,660,450	$ 5,638,616

	December 31, 2022							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct Notes	$ —	$ —	$ —	$ 1,329,542	$ —	$ —	$ —	$ 1,329,542
Real estate mortgage	1,230,458	233,348	375,125	309,796	8,786	12,187	1,614,369	555,331
Production and intermediate-term	1,739,496	440,755	785,499	1,032,498	212,096	16,625	2,737,091	1,489,878
Agribusiness	631,434	823,410	1,598,574	511,726	1,744,876	—	3,974,884	1,335,136
Rural infrastructure	—	319,804	2,212,262	—	—	—	2,212,262	319,804
Other	4,989	57,322	162,160	—	—	—	167,149	57,322
Total	$ 3,606,377	$ 1,874,639	$ 5,133,620	$ 3,183,562	$ 1,965,758	$ 28,812	$ 10,705,755	$ 5,087,013

Loan 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 at September 30, 2023:

	Term Loans Amortized Cost by Origination Year							
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Direct Notes								
Acceptable	$ —	$ —	$ —	$ —	$ —	$ —	$ 22,445,255	$ 22,445,255
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful/Loss	—	—	—	—	—	—	120,172	120,172
Total	$ —	$ —	$ —	$ —	$ —	$ —	$ 22,565,427	$ 22,565,427
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate mortgage								
Acceptable	$ 64,320	$ 179,465	$ 254,785	$ 104,680	$ 112,366	$ 355,552	$ 27,807	$ 1,098,975
OAEM	5,015	227	291	—	—	2,403	1	7,937
Substandard/Doubtful/Loss	—	19,318	—	957	—	4,038	4,805	29,118
Total	$ 69,335	$ 199,010	$ 255,076	$ 105,637	$ 112,366	$ 361,993	$ 32,613	$ 1,136,030
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 15	$ —	$ 15
Production and intermediate term								
Acceptable	$ 107,468	$ 225,830	$ 63,515	$ 61,025	$ 34,119	$ 160,982	$ 560,065	$ 1,213,004
OAEM	1,612	237	44	—	15	45	2,682	4,635
Substandard/Doubtful/Loss	5,747	7,211	—	263	16,894	—	6,837	36,952
Total	$ 114,827	$ 233,278	$ 63,559	$ 61,288	$ 51,028	$ 161,027	$ 569,584	$ 1,254,591
Current period gross charge-offs	$ —	$ 2,967	$ —	$ —	$ —	$ —	$ 1,309	$ 4,276
Agribusiness								
Acceptable	$ 283,758	$ 464,515	$ 329,075	$ 122,624	$ 124,454	$ 396,524	$ 814,121	$ 2,535,071
OAEM	—	23,190	21,298	105	4,632	—	14,471	63,696
Substandard/Doubtful/Loss	—	—	—	10,827	—	—	15,325	26,152
Total	$ 283,758	$ 487,705	$ 350,373	$ 133,556	$ 129,086	$ 396,524	$ 843,917	$ 2,624,919
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Rural infrastructure								
Acceptable	$ 505,579	$ 603,503	$ 416,347	$ 265,535	$ 155,218	$ 252,867	$ 168,915	$ 2,367,964
OAEM	—	—	—	—	—	23,867	—	23,867
Substandard/Doubtful/Loss	—	—	—	—	2,633	—	304	2,937
Total	$ 505,579	$ 603,503	$ 416,347	$ 265,535	$ 157,851	$ 276,734	$ 169,219	$ 2,394,768
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Rural residential real estate								
Acceptable	$ 239,506	$ 663,061	$ 506,617	$ 340,313	$ 221,264	$ 1,163,487	$ —	$ 3,134,248
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful/Loss	—	773	2,676	739	1,692	12,392	—	18,272
Total	$ 239,506	$ 663,834	$ 509,293	$ 341,052	$ 222,956	$ 1,175,879	$ —	$ 3,152,520
Current period gross charge-offs	$ —	$ —	$ 46	$ 15	$ —	$ 193	$ —	$ 254
Other								
Acceptable	$ 58,316	$ 16,882	$ 16,708	$ —	$ —	$ 19,826	$ 181,353	$ 293,085
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful/Loss	—	—	—	—	—	—	—	—
Total	$ 58,316	$ 16,882	$ 16,708	$ —	$ —	$ 19,826	$ 181,353	$ 293,085
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total Loans								
Acceptable	$ 1,258,947	$ 2,153,256	$ 1,587,047	$ 894,177	$ 647,421	$ 2,349,238	$ 24,197,516	$ 33,087,602
OAEM	6,627	23,654	21,633	105	4,647	26,315	17,154	100,135
Substandard/Doubtful/Loss	5,747	27,302	2,676	12,786	21,219	16,430	147,443	233,603
Total	$ 1,271,321	$ 2,204,212	$ 1,611,356	$ 907,068	$ 673,287	$ 2,391,983	$ 24,362,113	$ 33,421,340
Current period gross charge-offs	$ —	$ 2,967	$ 46	$ 15	$ —	$ 208	$ 1,309	$ 4,545

The following table shows loans, including accrued interest under the Farm Credit Administration Uniform Loan Classification System by loan type as of December 31, 2022, prior to the adoption of CECL:

	December 31, 2022							
(dollars in thousands)	**Direct Notes**	**Real estate mortgage**	**Production and intermediate-term**	**Agribusiness**	**Rural infrastructure**	**Rural residential real estate**	**Other**	**Total**
Acceptable	$ 21,274,539	$ 1,156,016	$ 1,197,236	$ 2,585,812	$ 1,887,320	$ 3,035,212	$ 277,266	$ 31,413,401
OAEM	—	12,729	16,640	28,043	—	—	—	57,412
Substandard/Doubtful/Loss	—	2,984	37,576	31,028	5,870	15,554	—	93,012
Total	$ 21,274,539	$ 1,171,729	$ 1,251,452	$ 2,644,883	$ 1,893,190	$ 3,050,766	$ 277,266	$ 31,563,825

Accrued interest receivable on loans of $119.1 million and $95.1 million at September 30, 2023 and December 31, 2022, respectively, have been excluded from the amortized cost of loans and reported separately in the Balance Sheets.

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

	September 30, 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**
Direct Notes	$ —	$ —	$ —	$ 22,565,427	$ 22,565,427	$ —
Real estate mortgage	3,506	769	4,275	1,131,755	1,136,030	—
Production and intermediate-term	1,322	1,276	2,598	1,251,993	1,254,591	—
Agribusiness	—	—	—	2,624,919	2,624,919	—
Rural infrastructure	—	308	308	2,394,460	2,394,768	—
Rural residential real estate	43,858	7,923	51,781	3,100,739	3,152,520	—
Other	—	—	—	293,085	293,085	—
Total	$ 48,686	$ 10,276	$ 58,962	$ 33,362,378	$ 33,421,340	$ —

Prior to the adoption of CECL, 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**
Direct Notes	$ —	$ —	$ —	$ 21,274,539	$ 21,274,539	$ —
Real estate mortgage	2,156	90	2,246	1,169,483	1,171,729	—
Production and intermediate-term	8,129	3,912	12,041	1,239,411	1,251,452	—
Agribusiness	—	—	—	2,644,883	2,644,883	—
Rural infrastructure	—	—	—	1,893,190	1,893,190	—
Rural residential real estate	39,066	9,958	49,024	3,001,742	3,050,766	1,586
Other	—	—	—	277,266	277,266	—
Total	$ 49,351	$ 13,960	$ 63,311	$ 31,500,514	$ 31,563,825	$ 1,586

The following table reflects nonperforming assets and related credit quality statistics:

(dollars in thousands)	September 30, 2023
Nonaccrual loans:	
Real estate mortgage	$ 3,356
Production and intermediate-term	27,968
Rural infrastructure	2,937
Rural residential real estate	20,252
Total	$ 54,513
Accruing loans 90 days or more past due:	
Total	$ —
Total nonperforming loans	54,513
Other property owned	260
Total nonperforming assets	$ 54,773
Nonaccrual loans as a percentage of total loans	0.16 %
Nonperforming assets as a percentage of total loans and other property owned	0.16 %
Nonperforming assets as a percentage of capital	3.82 %

Prior to the adoption of CECL on January 1, 2023, nonperforming loans were included with accrued interest and included accruing restructured loans as shown in the following table:

(dollars in thousands)	December 31, 2022
Nonaccrual loans:	
Real estate mortgage	$ 3,390
Production and intermediate-term	13,552
Rural infrastructure	2,966
Rural residential real estate	17,210
Total	$ 37,118
Accruing restructured loans:	
Real estate mortgage	$ 572
Production and intermediate-term	828
Agribusiness	10,828
Rural residential real estate	27,611
Other	3,547
Total	$ 43,386
Accruing loans 90 days or more past due:	
Rural residential real estate	$ 1,586
Total	$ 1,586
Total nonperforming loans	$ 82,090
Other property owned	—
Total nonperforming assets	$ 82,090
Nonaccrual loans as a percentage of total loans	0.12 %
Nonperforming assets as a percentage of total loans and other property owned	0.26 %
Nonperforming assets as a percentage of capital	5.66 %

The following table provides the amortized cost for nonaccrual loans, as well as interest income recognized on nonaccrual loans during the period:

	September 30, 2023			Interest Income Recognized	
Nonaccrual loans:	**Amortized Cost with Allowance***	**Amortized Cost without Allowance****	**Total**	**For the Three Months Ended September 30, 2023**	**For the Nine Months Ended September 30, 2023**
Real estate mortgage	$ —	$ 3,356	$ 3,356	$ 1	$ 8
Production and intermediate-term	20,247	7,721	27,968	74	122
Rural infrastructure	2,937	—	2,937	—	88
Rural residential real estate	1,559	18,693	20,252	224	590
Total	$ 24,743	$ 29,770	$ 54,513	$ 299	$ 808

**Nonaccrual loans for which an allowance has been established.*
***Nonaccrual loans for which no allowance was deemed necessary.*

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

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate -term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for loan losses:							
Balance at June 30, 2023	$ 1,864	$ 12,978	$ 7,651	$ 4,500	$ 19,999	$ 71	47,063
Charge-offs	—	—	—	—	(45)	—	(45)
Recoveries	—	—	—	—	45	—	45
Provision for (reversal of) loan losses	138	3,465	(255)	(550)	(1,900)	(26)	872
Balance at September 30, 2023	$ 2,002	$ 16,443	$ 7,396	$ 3,950	$ 18,099	$ 45	$ 47,935
Allowance for unfunded commitments:							
Balance at June 30, 2023	$ 40	$ 790	$ 2,780	$ 395	$ —	$ 45	$ 4,050
Provision for unfunded commitments	1	6	(113)	(25)	—	2	$ (129)
Balance at September 30, 2023	$ 41	$ 796	$ 2,667	$ 370	$ —	$ 47	$ 3,921
Total allowance for credit losses	**$ 2,043**	**$ 17,239**	**$ 10,063**	**$ 4,320**	**$ 18,099**	**$ 92**	**$ 51,856**
Allowance for loan losses:							
Balance at December 31, 2022	$ 1,421	$ 6,757	$ 8,212	$ 2,945	$ 6,194	$ 541	$ 26,070
Cumulative effect of a change in accounting principle	51	(1,308)	1,135	(403)	13,180	(493)	12,162
Balance at January 1, 2023	$ 1,472	$ 5,449	$ 9,347	$ 2,542	$ 19,374	$ 48	$ 38,232
Charge-offs	(15)	(4,276)	—	—	(254)	—	(4,545)
Recoveries	—	—	—	42	109	—	151
Provision for (reversal of) loan losses	545	15,270	(1,951)	1,366	(1,130)	(3)	14,097
Balance at September 30, 2023	$ 2,002	$ 16,443	$ 7,396	$ 3,950	$ 18,099	$ 45	$ 47,935
Allowance for unfunded commitments:							
Balance at December 31, 2022	$ —	$ 128	$ 1,338	$ 31	$ —	$ —	$ 1,497
Cumulative effect of a change in accounting principle	28	654	2,365	404	—	41	3,492
Balance at January 1, 2023	$ 28	$ 782	$ 3,703	$ 435	$ —	$ 41	$ 4,989
Provision for (reversal of) unfunded commitments	13	14	(1,036)	(65)	—	6	(1,068)
Balance at September 30, 2023	$ 41	$ 796	$ 2,667	$ 370	$ —	$ 47	$ 3,921
Total allowance for credit losses	**$ 2,043**	**$ 17,239**	**$ 10,063**	**$ 4,320**	**$ 18,099**	**$ 92**	**$ 51,856**
Allowance for loan losses*:							
Balance at June 30, 2022	$ 1,393	$ 3,198	$ 6,445	$ 4,040	$ 5,784	$ 523	$ 21,383
Charge-offs	(13)	—	—	—	(331)	—	(344)
Recoveries	—	—	—	—	50	—	50
Provision for (reversal of) loan losses	(49)	424	22	130	514	(2)	1,039
Balance at September 30, 2022	$ 1,331	$ 3,622	$ 6,467	$ 4,170	$ 6,017	$ 521	$ 22,128
Balance at December 31, 2021	$ 1,513	$ 3,583	$ 5,532	$ 3,848	$ 5,149	$ 522	$ 20,147
Charge-offs	(13)	(10)	—	—	(1,231)	—	(1,254)
Recoveries	—	—	—	—	357	—	357
Provision for (reversal of) loan losses	(169)	49	935	322	1,742	(1)	2,878
Balance at September 30, 2022	$ 1,331	$ 3,622	$ 6,467	$ 4,170	$ 6,017	$ 521	$ 22,128

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

There was no allowance for credit loss for the Direct Note portfolio at September 30, 2023 or December 31, 2022.

Loan Modifications to Borrowers Experiencing Financial Difficulty

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.

The following tables show the amortized cost basis at the end of the reporting period for loan modifications granted to borrowers experiencing financial difficulty during the three and nine months ended September 30, 2023, disaggregated by loan type and type of modification granted:

	For the Three Months Ended September 30, 2023			
(dollars in thousands)	Interest Rate Reduction	Term or Payment Extension	Total	Percentage of Total by Loan Type
Production and intermediate-term	—	3,403	3,403	0.27 %
Agribusiness	6,598	—	6,598	0.25 %
Rural infrastructure	—	2,937	2,937	0.12 %
Rural residential real estate	—	2,811	2,811	0.09 %
Total	$ 6,598	$ 9,151	$ 15,749	0.05 %

	For the Nine Months Ended September 30, 2023			
(dollars in thousands)	Interest Rate Reduction	Term or Payment Extension	Total	Percentage of Total by Loan Type
Real estate mortgage	$ —	$ 79	$ 79	0.01 %
Production and intermediate-term	—	3,403	3,403	0.27 %
Agribusiness	6,598	10,827	17,425	0.66 %
Rural infrastructure	—	2,937	2,937	0.12 %
Rural residential real estate	—	5,107	5,107	0.16 %
Total	$ 6,598	$ 22,353	$ 28,951	0.09 %

The following table describes the financial effects of the modifications made to borrowers experiencing financial difficulty during the three months ended September 30, 2023:

	Interest Rate Reduction
	Financial Effect
Agribusiness	Reduced weighted average contractual interest rate from 10.95% to 8.95%

	Term or Payment Extension
	Financial Effect
Production and intermediate-term	Added a weighted average 2.3 years to the life of loans
Rural infrastructure	Added a weighted average 1.1 years to the life of loans
Rural residential real estate	Added a weighted average 8.1 years to the life of loans

The following table describes the financial effects of the modifications made to borrowers experiencing financial difficulty during the nine months ended September 30, 2023:

	Interest Rate Reduction
	Financial Effect
Agribusiness	Reduced weighted average contractual interest rate from 10.95% to 8.95%

	Term or Payment Extension
	Financial Effect
Real estate mortgage	Added a weighted average 1.5 years to the life of loans
Production and intermediate-term	Added a weighted average 2.3 years to the life of loans
Agribusiness	Added a weighted average 1.0 year to the life of loans
Rural infrastructure	Added a weighted average 1.1 years to the life of loans
Rural residential real estate	Added a weighted average 8.2 years to the life of loans

The following tables set forth the amortized cost of loans to borrowers experiencing financial difficulty that received a modification on or after January 1, 2023, the date of adoption of CECL, through September 30, 2023 and that defaulted in the periods presented:

	For the Three Months Ended September 30, 2023
(dollars in thousands)	**Term or Payment Extension**
Rural residential real estate	$ 976
Total	$ 976

	For the Nine Months Ended September 30, 2023
(dollars in thousands)	**Term or Payment Extension**
Rural residential real estate	$ 1,314
Total	$ 1,314

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified on or after January 1, 2023 through September 30, 2023:

(dollars in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Real estate mortgage	$ 79	$ —	$ —	$ 79
Production and intermediate-term	3,403	—	—	3,403
Agribusiness	17,425	—	—	17,425
Rural infrastructure	2,633	—	304	2,937
Rural residential real estate	4,377	730	—	5,107
Total	$ 27,917	$ 730	$ 304	$ 28,951

Troubled Debt Restructurings

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

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

(dollars in thousands)	Three Months Ended September 30, 2022				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Rural residential real estate	$ 3,940	$ 887	$ —	$ 4,827	
Total	$ 3,940	$ 887	$ —	$ 4,827	
Post-modification:					
Rural residential real estate	$ 4,390	$ 992	$ —	$ 5,382	377
Total	$ 4,390	$ 992	$ —	$ 5,382	$ 377

(dollars in thousands)	Nine Months Ended September 30, 2022				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ —	$ 471	$ —	$ 471	
Production and intermediate term	2,292	4,883	—	7,175	
Rural residential real estate	12,033	2,271	—	14,304	
Total	$ 14,325	$ 7,625	$ —	$ 21,950	
Post-modification:					
Real estate mortgage	$ —	$ 471	$ —	$ 471	
Production and intermediate term	2,292	4,883	—	7,175	
Rural residential real estate	13,273	2,524	—	15,797	1,196
Total	$ 15,565	$ 7,878	$ —	$ 23,443	$ 1,196

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

(dollars in thousands)	**Three Months Ended September 30, 2022**	**Nine Months Ended September 30, 2022**
Defaulted troubled debt restructurings:		
Production and intermediate term	4,892	4,892
Rural residential real estate	7,285	$ 11,039
Total	$ 12,177	$ 15,931

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

	Total TDRs	**Nonaccrual TDRs**
(dollars in thousands)	**December 31, 2022**	**December 31, 2022**
Real estate mortgage	$ 1,000	$ 428
Production and intermediate-term	6,172	5,344
Agribusiness	10,828	—
Rural residential real estate	32,271	4,660
Other (including Mission Related)	3,547	—
Total	$ 53,818	$ 10,432
Additional commitments to lend	$ —	

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

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

Investments in Debt Securities

The Bank's investments in debt securities consist primarily of mortgage-backed securities (MBSs) collateralized by U.S. government or U.S. agency guaranteed residential and commercial mortgages (agency securities). Also included are asset-backed securities (ABSs) which are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

Non-agency ABSs are included in available-for-sale investments. These securities must meet the applicable FCA regulatory guidelines which require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, priority of payments for senior classes over junior classes, or bond insurance. All of the non-agency securities owned have one or more credit enhancement features.

Held-to-maturity investments in debt securities consist primarily of Mission Related Investments (MRIs) acquired primarily under the Rural America Bond (RAB) pilot programs. RABs are private placement securities, which generally have some form of credit enhancement.

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. At September 30, 2023, the Bank held $40.7 million in U.S. Treasury securities for that purpose. The remainder of the compensating balance was held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

Available-for-sale
A summary of the amortized cost and fair value of debt securities held as available-for-sale investments at period end follows:

	September 30, 2023				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Treasury Securities	$ 142,029	$ 14	$ (1,703)	$ 140,340	4.22 %
U.S. Govt. Guaranteed	4,178,053	16	(623,626)	3,554,443	2.71
U.S. Govt. Agency Guaranteed	4,643,708	883	(555,781)	4,088,810	3.30
Non-Agency ABSs	606,980	22	(6,579)	600,423	4.76
Total	$ 9,570,770	$ 935	$ (1,187,689)	$ 8,384,016	3.15 %

	December 31, 2022				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Treasury Securities	$ 142,345	$ —	$ (2,629)	$ 139,716	0.57 %
U.S. Govt. Guaranteed	4,481,124	582	(502,233)	3,979,473	2.58
U.S. Govt. Agency Guaranteed	5,022,259	268	(484,982)	4,537,545	2.68
Non-Agency ABSs	410,205	25	(5,214)	405,016	3.96
Total	$ 10,055,933	$ 875	$ (995,058)	$ 9,061,750	2.66 %

Held-to-maturity
A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments at period end follows:

	September 30, 2023				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Agency Guaranteed	$ 191	$ —	$ (3)	$ 188	5.84 %
RABs and Other	12,281	—	(735)	11,546	5.88
Total	$ 12,472	$ —	$ (738)	$ 11,734	5.88 %

	December 31, 2022				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Agency Guaranteed	$ 436	$ —	$ (8)	$ 428	5.92 %
RABs and Other	13,622	56	(606)	13,072	5.90
Total	$ 14,058	$ 56	$ (614)	$ 13,500	5.90 %

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at September 30, 2023 follows:

Available-for-sale

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Treasury Securities	$ 111,590	4.78 %	$ 28,750	2.08 %	$ —	— %	$ —	— %	$ 140,340	4.22 %
U.S. Govt. Guaranteed	—	—	44,892	2.87	371,543	2.31	3,138,008	2.75	3,554,443	2.71
U.S. Govt. Agency Guaranteed	2,152	5.67	353,895	3.89	1,228,308	5.37	2,504,455	2.36	4,088,810	3.30
Non-Agency ABSs	—	—	600,423	4.76	—	—	—	—	600,423	4.76
Total fair value	$ 113,742	4.80 %	$1,027,960	4.30 %	$1,599,851	4.59 %	$5,642,463	2.58 %	$8,384,016	3.15 %
Total amortized cost	$ 114,310		$1,052,403		$1,690,322		$6,713,735		$9,570,770	

Held-to-maturity

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	$ —	— %	$ —	— %	$ —	— %	$ 191	5.84 %	$ 191	5.84 %
RABs and Other	2,037	6.12	—	—	—	—	10,244	5.84	12,281	5.88
Total amortized cost	$ 2,037	6.12 %	$ —	— %	—	— %	$ 10,435	5.84 %	$ 12,472	5.88 %
Total fair value	$ 2,004		$ —		$ —		$ 9,730		$ 11,734	

A substantial portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities will 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 tables show the fair value and gross unrealized losses for available-for-sale investments that have been in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	September 30, 2023					
	Less Than 12 Months		12 Months Or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ —	$ —	$ 40,662	$ (1,703)	$ 40,662	$ (1,703)
U.S. Govt. Guaranteed	175,155	(8,307)	3,372,716	(615,319)	3,547,871	(623,626)
U.S. Govt. Agency Guaranteed	305,845	(1,823)	3,552,028	(553,958)	3,857,873	(555,781)
Non-Agency ABSs	367,130	(1,964)	171,709	(4,615)	538,839	(6,579)
Total	$ 848,130	$ (12,094)	$ 7,137,115	$ (1,175,595)	$ 7,985,245	$ (1,187,689)

Prior to the adoption of CECL on January 1, 2023, the following table included the fair value and gross unrealized loss of held-to-maturity investment securities as shown in the following table:

	December 31, 2022					
	Less Than 12 Months		12 Months Or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ 14,575	$ (253)	$ 125,141	$ (2,376)	$ 139,716	$ (2,629)
U.S. Govt. Guaranteed	2,605,800	(228,069)	1,296,188	(274,164)	3,901,988	(502,233)
U.S. Govt. Agency Guaranteed	2,767,577	(152,133)	1,759,524	(332,857)	4,527,101	(484,990)
Non-Agency ABSs	364,991	(5,214)	—	—	364,991	(5,214)
RABs and Other	9,404	(606)	—	—	9,404	(606)
Total	$ 5,762,347	$ (386,275)	$ 3,180,853	$ (609,397)	$ 8,943,200	$ (995,672)

The Bank evaluates investment securities with unrealized losses for impairment on a quarterly basis. As part of this assessment, it was concluded that the Bank does not intend to sell the security, or it is not more likely than not that the Bank would be required to sell the security prior to recovery of the amortized cost basis. The Bank 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 Bank does not consider these unrealized losses to be credit-related and an allowance for credit losses is not necessary.

Note 4 — Debt

Bonds and Notes

AgFirst, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued jointly by the System banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks.

In accordance with FCA regulations, each issuance of Systemwide Debt Securities ranks equally with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The following table provides a summary of AgFirst's participation in outstanding Systemwide Debt Securities by maturity.

	September 30, 2023					
(dollars in thousands)	Bonds		Discount Notes		Total	
Maturities	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
One year or less	$ 10,368,422	3.47 %	$ 3,262,499	5.19 %	$ 13,630,921	3.88 %
Greater than one year to two years	8,110,370	3.26	—	—	8,110,370	3.26
Greater than two years to three years	3,938,974	2.43	—	—	3,938,974	2.43
Greater than three years to four years	2,621,891	2.14	—	—	2,621,891	2.14
Greater than four years to five years	2,785,500	2.99	—	—	2,785,500	2.99
Greater than five years	10,526,886	3.50	—	—	10,526,886	3.50
Total	$ 38,352,043	3.20 %	$ 3,262,499	5.19 %	$ 41,614,542	3.36 %

Discount notes are issued with maturities of one year or less. The weighted average maturity of discount notes at September 30, 2023 was 61 days.

Note 5 — Shareholders' Equity

Accumulated Other Comprehensive Income

The following tables present the activity related to accumulated other comprehensive income (AOCI):

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	For the For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(dollars in thousands)	**2023**	**2022**	**2023**	**2022**
Investment Securities:				
Balance at beginning of period	$ (994,298)	$ (630,313)	$ (994,183)	$ 22,007
Other comprehensive income before reclassifications	(192,456)	(336,278)	(192,571)	(988,598)
Amounts reclassified from AOCI	—	—	—	—
Net current period other comprehensive income	(192,456)	(336,278)	(192,571)	(988,598)
Balance at end of period	$ (1,186,754)	$ (966,591)	$ (1,186,754)	$ (966,591)
Cash Flow Hedges:				
Balance at beginning of period	$ —	$ 183	$ —	$ 201
Other comprehensive income before reclassifications	(16)	64	(53)	11
Amounts reclassified from AOCI	16	(77)	53	(42)
Net current period other comprehensive income	—	(13)	—	(31)
Balance at end of period	$ —	$ 170	$ —	$ 170
Employee Benefit Plans:				
Balance at beginning of period	$ 296	$ (3,260)	$ 285	$ (3,610)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	5	175	16	525
Net current period other comprehensive income	5	175	16	525
Balance at end of period	$ 301	$ (3,085)	$ 301	$ (3,085)
Total Accumulated Other Comprehensive Income:				
Balance at beginning of period	$ (994,002)	$ (633,390)	$ (993,898)	$ 18,598
Other comprehensive income before reclassifications	(192,472)	(336,214)	(192,624)	(988,587)
Amounts reclassified from AOCI	21	98	69	483
Net current period other comprehensive income	(192,451)	(336,116)	(192,555)	(988,104)
Balance at end of period	$ (1,186,453)	$ (969,506)	$ (1,186,453)	$ (969,506)

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

	For the For the Three Months Ended September 30,		For the Nine Months Ended September 30,		
(dollars in thousands)	**2023**	**2022**	**2023**	**2022**	**Income Statement Line Item**
Investment Securities:					
Sales gains & losses	$ —	$ —	$ —	$ —	Gains (losses) on investments, net
Net amounts reclassified	—	—	—	—	
Cash Flow Hedges:					
Interest income	$ —	$ 13	$ —	$ 31	Interest income on investment securities
Gains (losses) on other transactions	(16)	64	(53)	11	Gains (losses) on other transactions
Net amounts reclassified	(16)	77	(53)	42	
Employee Benefit Plans:					
Periodic pension costs	$ (5)	$ (175)	$ (16)	$ (525)	See Note 7.
Net amounts reclassified	(5)	(175)	(16)	(525)	
Total reclassifications for period	$ (21)	$ (98)	$ (69)	$ (483)	

(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 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter 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 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

Level 3 inputs are unobservable and supported by little or no market activity. Level 3 assets and liabilities could include investments and derivative contracts whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, and other instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets and liabilities could also include investments and derivative contracts 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 most recent Annual Report to Shareholders.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

	September 30, 2023				
(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury securities	$ 140,340	$ —	$ 140,340	$ —	$ 140,340
U.S. Govt. guaranteed	3,554,443	—	3,554,443	—	3,554,443
U.S. Govt. Agency guaranteed	4,088,810	—	4,088,810	—	4,088,810
Non-agency ABSs	600,423	—	600,423	—	600,423
Total investments in debt securities available-for-sale	8,384,016	—	8,384,016	—	8,384,016
Cash equivalents	570,000	—	570,000	—	570,000
Assets held in trust funds	17,143	17,143	—	—	17,143
Recurring Assets	$ 8,971,159	$ 17,143	$ 8,954,016	$ —	$ 8,971,159
Nonrecurring Measurements					
Assets:					
Loans	$ 8,301	$ —	$ —	$ 8,301	$ 8,301
Other property owned	260	—	—	260	260
Nonrecurring Assets	$ 8,561	$ —	$ —	$ 8,561	$ 8,561
Other Financial Instruments					
Assets:					
Cash	$ 599,488	$ 599,488	$ —	$ —	$ 599,488
Investments in debt securities held-to-maturity	12,472	—	188	11,546	11,734
Loans	33,365,104	—	—	31,024,967	31,024,967
Other Financial Assets	$ 33,977,064	$ 599,488	$ 188	$ 31,036,513	$ 31,636,189
Liabilities:					
Systemwide debt securities	$ 41,614,542	$ —	$ —	$ 39,362,023	$ 39,362,023
Other Financial Liabilities	$ 41,614,542	$ —	$ —	$ 39,362,023	$ 39,362,023

	December 31, 2022				
(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury securities	$ 139,716	$ —	$ 139,716	$ —	$ 139,716
U.S. Govt. guaranteed	3,979,473	—	3,979,473	—	3,979,473
U.S. Govt. agency guaranteed	4,537,545	—	4,537,545	—	4,537,545
Non-agency ABSs	405,016	—	405,016	—	405,016
Total investments in debt securities available-for-sale	9,061,750	—	9,061,750	—	9,061,750
Cash equivalents	350,000	—	350,000	—	350,000
Assets held in trust funds	16,896	16,896	—	—	16,896
Recurring Assets	$ 9,428,646	$ 16,896	$ 9,411,750	$ —	$ 9,428,646
Nonrecurring Measurements					
Assets:					
Loans	$ 34,161	$ —	$ —	$ 34,161	$ 34,161
Nonrecurring Assets	$ 34,161	$ —	$ —	$ 34,161	$ 34,161
Other Financial Instruments					
Assets:					
Cash	$ 746,392	$ 746,392	$ —	$ —	$ 746,392
Investments in debt securities held to maturity	14,058	—	428	13,072	13,500
Loans	31,408,501	—	—	29,369,063	29,369,063
Other Financial Assets	$ 32,168,951	$ 746,392	$ 428	$ 29,382,135	$ 30,128,955
Liabilities:					
Systemwide debt securities	$ 40,139,921	$ —	$ —	$ 37,649,443	$ 37,649,443
Other Financial Liabilities	$ 40,139,921	$ —	$ —	$ 37,649,443	$ 37,649,443

Uncertainty in Measurements of Fair Value

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables at the end of this Note 6. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investments in Debt Securities

The fair values of predominantly all Level 3 investments in debt securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease). Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Inputs to Valuation Techniques

Management determines the Bank's valuation policies and procedures. Internal valuation processes are calibrated annually by an independent consultant. Fair value measurements are analyzed on a periodic basis. Documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing.

Quoted market prices are generally not available for the instruments described in the table below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Debt securities available-for-sale	Discounted cash flow	Constant prepayment rate
		Probability of default
		Loss severity
	Quoted prices	Price for similar security
	Vendor priced	*
Federal funds sold, securities purchased under resale agreements and other	Carrying value	Par/principal and appropriate interest yield

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Cash and cash equivalents	Carrying value	Par/principal and appropriate interest yield
Debt securities held-to-maturity	Discounted cash flow	Constant prepayment rate
		Prepayment rates
		Probability of default
		Risk-adjusted spread
		Loss severity
	Quoted prices	Price for similar security
	Vendor priced	*
Systemwide debt securities	Discounted cash flow	Benchmark yield curve
		Derived yield spread
		Own credit risk
Cash collateral	Carrying value	Par/principal and appropriate interest yield

* *The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

Note 7 — Employee Benefit Plans

Following are retirement and other postretirement benefit expenses for the Bank:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(dollars in thousands)	2023	2022	2023	2022
Pension	$ 1,060	$ 1,205	$ 3,033	$ 3,614
401k	1,333	1,325	4,071	3,587
Other postretirement benefits	276	272	825	816
Total	$ 2,669	$ 2,802	$ 7,929	$ 8,017

Expenses in the above table include allocated estimates of funding for multiemployer plans in which the Bank participates. These amounts may change when a total funding amount and allocation is determined by the respective Plans' Sponsor Committees. 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 most recent annual report to Shareholders.

Note 8 — Commitments and Contingencies

Under the Farm Credit Act of 1971, each System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the four banks are jointly and severally liable for the bonds and notes of the other System banks under the terms of the Joint and Several Liability Allocation Agreement. Published in the Federal Register, the agreement prescribes the payment mechanisms to be employed in the event one of the banks is unable to meet its debt obligations.

In the event a bank is unable to timely pay principal or interest on an insured debt obligation for which the bank is primarily liable, the Farm Credit System Insurance Corporation (FCSIC) must expend amounts in the Insurance Fund to the extent available to ensure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

Once joint and several liability provisions are initiated, the FCA is required to make "calls" to satisfy the liability first on all non-defaulting banks in the proportion that each non-defaulting bank's available collateral (collateral in excess of collateralized obligations) bears to the aggregate available collateral of all non-defaulting banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting bank's remaining assets. Upon making a call on non-defaulting banks with respect to a Systemwide Debt Security issued on behalf of a defaulting bank, the FCA is required to appoint FCSIC as the receiver for the defaulting bank. The receiver would be required to expeditiously liquidate assets of the bank.

AgFirst did not anticipate making any payments on behalf of its co-obligors under the Joint and Several Liability Allocation Agreement for any of the periods presented. The total amount outstanding and the carrying amount of the Bank's liability under the agreement are as follows:

(dollars in billions)	September 30, 2023	December 31, 2022
Total System bonds and notes	$ 401.854	$ 389.977

From time to time, legal actions are pending against the Bank in which claims for money damages are asserted. On at least a quarterly basis, the Bank 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 and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Bank. Because it is remote that the Bank will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Additional Financial Information

Offsetting of Financial Assets

(dollars in thousands)	September 30, 2023	December 31, 2022
Reverse repurchase and similar arrangements	$ 570,000	$ 350,000
Gross Amount of Recognized Assets	570,000	350,000
Reverse repurchase and similar arrangements	—	—
Gross Amounts Offset in the Balance Sheets	—	—
Net Amounts of Assets Presented in the Balance Sheets	$ 570,000	$ 350,000
Financial Instruments	(570,000)	(350,000)
Gross Amounts Not Offset in the Balance Sheets	(570,000)	(350,000)
Net Amount	$ —	$ —

There were no liabilities subject to master netting arrangements or similar agreements during the reporting periods.

The reverse repurchase agreements are accounted for as collateralized lending.

Combined Districtwide Financial Statements

The accompanying financial statements exclude financial information of the Bank's affiliated Associations. The Bank and its affiliated Associations are collectively referred to as the AgFirst District. The Bank separately publishes certain unaudited combined financial information of the AgFirst District, including a statement of condition and statement of comprehensive income, which can be found on the Bank's website at **www.agfirst.com**.

Note 10 — Subsequent Events

The Bank evaluated subsequent events and determined, other than described below, no subsequent events have occurred requiring disclosure through November 8, 2023, which was the date the financial statements were issued.

On October 27, 2023, the Board of Directors approved an increase to the Association minimum required investment in AgFirst from 1.00 percent of the average Direct Note balance to 1.50 percent effective October 31, 2023. This resulted in an increase to the Bank's capital stock of $132.3 million to $432.9 million.

Additional Regulatory Information

(unaudited)

Overview

The following quantitative disclosures contain regulatory disclosures as required for the Bank under Regulation §628.62 and §628.63. These disclosures should be read in conjunction with our 2022 Annual report, which includes additional qualitative disclosures. As required, these disclosures are made available for at least three years and can be accessed within the financial reports on AgFirst's website at www.agfirst.com.

SCOPE OF APPLICATION

AgFirst Farm Credit Bank (AgFirst or the Bank) is one of the four banks of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, established by Congress and subject to the provisions of the Farm Credit Act of 1971, as amended. The Bank prepares financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry.

As of September 30, 2023, the AgFirst District consisted of the Bank and 16 District Associations. See further discussion in *Note 1 - Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements* related to Association mergers. All Associations were structured as Agricultural Credit Association (ACA) holding companies, with Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries. AgFirst is owned jointly by these Associations, certain Other Financing Institutions (OFIs), and other System institutions. The Bank does not have any subsidiaries requiring consolidation; therefore, there are no consolidated entities for which the total capital requirement is deducted, there are no restrictions on transfer of funds or total capital with other consolidated entities and no subsidiary exists which is below the minimum total capital requirement individually or when aggregated at the Bank's level. In conjunction with other System entities, the Bank jointly owns certain service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the FCS Building Association (FCSBA), and the Farm Credit Association Captive Insurance Corporation (Captive). Certain of the Bank's investments in other System institutions, including the investment in the Funding Corporation and FCSBA, are deducted from capital as only the institution that issued the equities may count the amount as capital.

CAPITAL STRUCTURE

The table below outlines the Bank's capital structure for the capital adequacy calculations as of September 30, 2023:

(dollars in thousands)		3-Month Average Daily Balance
Common Equity Tier 1 Capital (CET1)		
Common cooperative equities:		
Statutory minimum purchased borrower stock	$	20
Other required member purchased stock		97,422
Allocated equities:		
Allocated stock subject to retirement		203,097
Nonqualified allocated surplus subject to retirement		123,413
Unallocated retained earnings		2,117,394
Paid-in capital		63,668
Regulatory adjustments and deductions made to CET1*		(83,896)
Total CET1 Capital	$	2,521,118
Additional Tier 1 Capital (AT1)		
Total AT1 Capital	$	—
Total Tier 1 Capital	$	2,521,118
Tier 2 Capital		
Allowance for loan losses	$	47,072
Reserve for unfunded commitments		4,047
Total Tier 2 Capital	$	51,119
Total Regulatory Capital	$	2,572,237

**Primarily investments in other System institutions.*

On October 27, 2023, the Board of Directors approved an increase to the Association minimum required investment in AgFirst from 1.00 percent of the average Direct Note balance to 1.50 percent effective October 31, 2023. This resulted in an increase to the Bank's capital stock of $132.3 million to $432.9 million.

CAPITAL ADEQUACY AND CAPITAL BUFFERS

The table below outlines the Bank's risk-weighted assets, by exposure, calculated on a three-month average daily balance (including accrued interest of that exposure) as of September 30, 2023:

(dollars in thousands)		Risk-Weighted Assets
Exposures to:		
Government-sponsored entities, including Direct Notes to Associations	$	5,528,007
Depository institutions		76,441
Corporate exposures, including borrower loans and leases		8,172,220
Residential mortgage loans		1,247,898
Past due > 90 days and nonaccrual loans		69,239
Securitizations		247,357
Exposures to obligors and other assets		219,572
Off-balance sheet exposures		2,070,169
Total risk-weighted assets	$	17,630,903

As of September 30, 2023, the Bank exceeded all capital requirements to which it was subject, including applicable capital buffers. The risk-adjusted capital ratios exceeded the regulatory minimum levels, including the conservation buffer, by at least 4.09 percent. Additionally, the Tier 1 leverage ratio was 0.84 percent in excess of the required minimum leverage ratio, including the buffer. 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.

The following sets forth the regulatory capital ratios as of September 30, 2023:

Ratio	Regulatory Minimum Requirement	Capital Conservation Buffer	Minimum Requirement, Including Buffer	Capital Ratios
Risk-adjusted ratios:				
CET1 Capital	4.50 %	2.50 %	7.00 %	14.30 %
Tier 1 Capital	6.00 %	2.50 %	8.50 %	14.30 %
Total Regulatory Capital	8.00 %	2.50 %	10.50 %	14.59 %
Permanent Capital	7.00 %	0.00 %	7.00 %	14.34 %
Non-risk-adjusted ratios:				
Tier 1 Leverage*	4.00 %	1.00 %	5.00 %	5.84 %
URE and URE Equivalents Leverage	1.50 %	0.00 %	1.50 %	4.57 %

**The Tier 1 Leverage Ratio must include a minimum of 1.5% of URE and URE Equivalents.*

CREDIT RISK

System entities have specific lending authorities within their chartered territories. The Bank is subject to credit risk by lending to the District's FLCAs, PCAs, and ACAs as well as OFIs. The Bank also purchases participations and syndications and first lien residential mortgage loans. The allowance for credit losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired based on characteristics such as probability of default (PD) and loss given default (LGD). Allowance needs by geographic region are only considered in rare circumstances that may not otherwise be reflected in the PD and LGD (flooding, drought, etc.). There was no allowance attributed to a geographic area as of September 30, 2023. See Note 2, *Loans and Allowance for Credit Losses*, and Note 3, *Investments*, in the Notes to the Financial Statements for quantitative disclosures related to the Bank's credit risk.

CREDIT RISK MITIGATION

Credit Risk Mitigation Related to Loans

The Bank uses various strategies to mitigate credit risk in its lending portfolio. As described in Note 1 of the Bank's Annual Report, a substantial portion of the loan balance is concentrated in notes receivable from the District Associations to fund their earning assets, which collateralize the notes. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their respective retail loan portfolios. Excluding accrued interest receivable, at September 30, 2023, the Bank's Direct Note portfolio totaled $22.6 billion and aggregate District Associations' loan portfolios totaled $29.0 billion.

The following table illustrates certain significant credit risk mitigants within AgFirst's loan portfolio, including accrued interest, which reduce capital requirements as of September 30, 2023:

(dollars in thousands)	Ending Balance	3-Month Average Balance	Risk-Weighted Exposures	% of Total Loans
Loans with unconditional guarantee	$ 6,844	$ 7,045	$ —	— %
Loans with conditional guarantee	567,160	575,817	115,163	2 %
Direct Notes	22,636,996	22,333,563	4,466,713	67 %
Total	$ 23,211,000	$ 22,916,425	$ 4,581,876	69 %

The following table illustrates the geographic distribution of the aggregate loan portfolios for AgFirst District Associations which approximates the credit risk in the Direct Note portfolio as of September 30, 2023:

AgFirst Total District Associations
Loan Portfolios by State

	Percent of Portfolio
North Carolina	14 %
Georgia	11
Pennsylvania	11
Ohio	9
Virginia	8
Florida	8
South Carolina	6
Maryland	6
Alabama	5
Kentucky	3
Mississippi	3
Louisiana	2
Delaware	2
All Other States	12
Total	100 %

The following table illustrates the various major commodity groups in the aggregate District Associations' loan portfolios based on borrower eligibility as a percentage of the aggregate outstanding District Associations' loan volume at September 30, 2023:

AgFirst Total District Associations
Loan Portfolios by Commodity Group
Based on Eligibility

	Percent of Portfolio
Forestry	17 %
Field Crops	12
Poultry	12
Cattle	8
Grains	8
Corn	5
Other Real Estate	5
Dairy	4
Processing	4
Tree Fruits and Nuts	3
Nursery/Greenhouse	3
Rural Home Loans	2
Cotton	2
Utilities	2
Swine	2
Other	11
Total	100 %

The following table illustrates the aggregate District Associations' loan portfolios based upon repayment dependency by commodity as a percentage of the aggregate outstanding District Associations' loan volume at September 30, 2023:

AgFirst Total District Associations
Loan Portfolios by Commodity Group
Based on Repayment Dependency

	Percent of Portfolio
Non-Farm Income	34 %
Poultry	11
Grains	6
Field Crops	6
Forestry	6
Corn	5
Dairy	4
Processing	4
Cattle	3
Nursery/Greenhouse	3
Tree Fruits and Nuts	2
Other Real Estate	2
Cotton	2
Utilities	2
Swine	2
Other	8
Total	100 %

The following table illustrates AgFirst's loan portfolio by geographic distribution at September 30, 2023. This table includes the Bank's Direct Notes in total and does not include accrued interest.

AgFirst Loan Portfolio by State

	At Period End			Year-to-Date Average Balance		
(dollars in thousands)	**Outstanding Loans**	**Unfunded Amounts**	**Total Exposure**	**Outstanding Loans**	**Unfunded Amounts**	**Total Exposure**
Georgia	$ 1,190,622	$ 420,746	$ 1,611,368	$ 1,157,197	$ 425,029	$ 1,582,226
North Carolina	1,369,046	238,049	1,607,095	1,371,698	199,046	1,570,744
Florida	891,559	469,139	1,360,698	906,961	420,545	1,327,506
Texas	778,442	186,065	964,507	739,282	192,150	931,432
South Carolina	620,155	95,101	715,256	555,671	74,538	630,209
Minnesota	409,606	284,920	694,526	401,830	251,878	653,708
New York	435,972	187,277	623,249	434,126	161,636	595,762
Virginia	495,251	101,091	596,342	495,986	101,914	597,900
California	382,476	95,338	477,814	375,338	97,676	473,014
Pennsylvania	264,452	160,730	425,182	239,733	163,085	402,818
Ohio	301,199	111,084	412,283	298,051	108,412	406,463
Illinois	276,124	129,353	405,477	347,383	123,606	470,989
Maryland	304,449	18,248	322,697	294,369	38,999	333,368
Indiana	187,349	132,749	320,098	224,908	130,154	355,062
Missouri	194,289	116,014	310,303	182,975	105,022	287,997
Tennessee	178,943	120,837	299,780	170,599	100,013	270,612
Kentucky	228,294	66,914	295,208	229,540	32,042	261,582
Louisiana	171,541	107,771	279,312	170,309	110,113	280,422
Nebraska	147,920	116,432	264,352	101,105	105,426	206,531
Washington	162,270	65,682	227,952	159,067	72,977	232,044
Arkansas	89,330	138,498	227,828	102,747	102,192	204,939
All other states	1,776,624	839,679	2,616,303	1,794,628	786,321	2,580,949
Direct Notes	22,565,427	2,209,912	24,775,339	21,659,871	2,708,077	24,367,948
Total loans	$ 33,421,340	$ 6,411,629	$ 39,832,969	$ 32,413,374	$ 6,610,851	$ 39,024,225

The following table shows the various major commodity groups in the portfolio based on borrower eligibility at September 30, 2023. This table includes the Bank's Direct Notes in total and does not include accrued interest.

AgFirst Loan Portfolio by Commodity Group Based on Eligibility

	At Period End			Year-to-Date Average Balance		
(dollars in thousands)	**Outstanding Loans**	**Unfunded Amounts**	**Total Exposure**	**Outstanding Loans**	**Unfunded Amounts**	**Total Exposure**
Rural Home Loans	$ 3,152,518	$ 159,035	$ 3,311,553	$ 3,097,884	$ 143,870	$ 3,241,754
Utilities	1,821,625	859,844	2,681,469	1,733,307	817,488	2,550,795
Processing	1,500,734	991,541	2,492,275	1,524,656	926,771	2,451,427
Forestry	1,344,632	398,944	1,743,576	1,258,246	410,674	1,668,920
Field Crops	398,014	309,427	707,441	464,535	273,706	738,241
Tree Fruits and Nuts	328,678	205,234	533,912	340,052	202,062	542,114
Grains	270,937	251,179	522,116	256,405	198,591	454,996
Dairy	217,765	99,166	316,931	195,875	87,587	283,462
Cattle	246,575	40,630	287,205	211,223	31,908	243,131
Other	1,574,435	886,717	2,461,152	1,671,320	810,117	2,481,437
Direct Notes	22,565,427	2,209,912	24,775,339	21,659,871	2,708,077	24,367,948
Total loans	$ 33,421,340	$ 6,411,629	$ 39,832,969	$ 32,413,374	$ 6,610,851	$ 39,024,225

The following table segregates loans based upon repayment dependency by commodity at September 30, 2023. This table includes the Bank's Direct Notes in total and does not include accrued interest.

AgFirst Loan Portfolio by Commodity Group Based on Repayment Dependency

	At Period End			Year-to-Date Average Balance		
(dollars in thousands)	Outstanding Loans	Unfunded Amounts	Total Exposure	Outstanding Loans	Unfunded Amounts	Total Exposure
Non-Farm Income	$ 3,473,314	$ 210,198	$ 3,683,512	$ 3,429,739	$ 182,199	$ 3,611,938
Utilities	1,788,956	859,845	2,648,801	1,733,307	817,488	2,550,795
Processing	1,495,131	993,579	2,488,710	1,521,743	932,689	2,454,432
Forestry	1,229,257	391,182	1,620,439	1,141,176	398,855	1,540,031
Field Crops	428,724	339,205	767,929	493,034	304,748	797,782
Grains	276,326	259,344	535,670	265,241	202,773	468,014
Tree Fruits and Nuts	308,805	179,581	488,386	311,043	166,081	477,124
Dairy	214,905	96,291	311,196	192,313	85,511	277,824
Cattle	234,072	32,982	267,054	201,737	29,278	231,015
Other	1,406,423	839,510	2,245,933	1,464,170	783,152	2,247,322
Direct Notes	22,565,427	2,209,912	24,775,339	21,659,871	2,708,077	24,367,948
Total loans	$ 33,421,340	$ 6,411,629	$ 39,832,969	$ 32,413,374	$ 6,610,851	$ 39,024,225

A significant source of liquidity for the Bank is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end. This table does not include accrued interest.

	September 30, 2023				
(dollars in thousands)	Due Less Than 1 Year	Due 1 Through 5 Years	Due 5 to 15 Years	Due After 15 Years	Total
Direct Notes[1]	$ 1,883,439	$ 4,984,223	$ 8,616,241	$ 7,081,524	$ 22,565,427
Real estate mortgage	4,784	267,957	585,723	277,566	1,136,030
Production and intermediate-term	317,983	628,161	308,447	—	1,254,591
Agribusiness	240,144	1,694,454	674,217	16,104	2,624,919
Rural infrastructure:	131,797	1,297,021	599,844	366,106	2,394,768
Rural residential real estate	149,190	29,846	350,644	2,622,840	3,152,520
Other:	168,474	82,218	42,393	—	293,085
Total loans	$ 2,895,811	$ 8,983,880	$ 11,177,509	$ 10,364,140	$ 33,421,340
Percentage	8.67 %	26.88 %	33.44 %	31.01 %	100.00 %

[1] Based on the underlying Association loans serving as collateral for the Direct Note which is a revolving line of credit.

The following table illustrates AgFirst's nonperforming loans by geographic distribution at September 30, 2023. This table does not include accrued interest.

Total Outstanding Nonperforming Loans by State

(dollars in thousands)	At Period End	Year-to-Date Average Balance
California	20,756	17,142
Georgia	12,105	10,938
North Carolina	9,749	8,699
Nebraska	2,937	2,314
South Carolina	2,039	282
Virginia	1,396	1,524
Florida	1,112	1,949
All other states	4,419	6,409
Total nonperforming loans	$ 54,513	$ 49,257

The Bank does not use credit default swaps as part of its credit risk management approach.

Credit Risk Mitigation Related to Investments

Credit risk in AgFirst's investment portfolio is largely mitigated by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies.

The following table shows the investment exposures covered by a guarantee as of September 30, 2023. This table does not include accrued interest.

(dollars in thousands)	Amortized Cost	Fair Value	% of Total Investments	Risk- Weighted Exposures
Unconditional Guarantee:				
U.S. Govt. Treasury Securities	$ 142,029	$ 140,340	2 %	$ —
U.S. Govt. Guaranteed	4,178,053	3,554,443	42 %	—
Conditional Guarantee:				
U.S. Govt. Agency Guaranteed	4,643,899	4,088,998	49 %	946,608
Total	$ 8,963,981	$ 7,783,781	93 %	$ 946,608

COUNTERPARTY CREDIT RISK

Counterparty credit risk exposures may consist of derivative instruments and repurchase-style transactions. By using derivative instruments, the Bank exposes itself to credit and market risk. The amount of this exposure depends on the value of underlying market factors (e.g., interest rates and foreign exchange rates), which can be volatile and uncertain in nature. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the Bank is exposed to an economic loss if the counterparty defaults. When the fair value of the derivative contract is negative, the counterparty is exposed to an economic loss in the event of a Bank default and the Bank has no credit risk exposure.

To minimize the risk of credit losses, the Bank transacts with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of, and levels of exposure to, individual counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts.

Financial instruments qualifying as eligible collateral are specifically defined under individual counterparty credit support agreements, but generally include cash, U.S. Treasury debt obligations, debt obligations of certain federal agencies and mortgage-backed securities guaranteed by certain federal agencies. Federal agencies include the Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and the Federal Home Loan Banks. The value of the instrument when used as collateral may be discounted from its market price up to 10 percent, depending on the security type, issuer, and term. Such discounts are defined in the credit support agreement.

At September 30, 2023, the Bank had one foreign currency forward commitment outstanding with a notional value of $563 thousand.

SECURITIZATION

The Bank has elected to utilize the simplified supervisory formula risk-based capital approach (SSFA) for securitization exposures. As such, the Bank's asset-backed securities (ABS) portfolio is risk weighted at an individual security level. As of September 30, 2023, the securities in this portfolio were risk weighted 50.40 percent, with a range of 20.00 percent to 157.98 percent. Total risk-weighted assets for these investment securities utilizing a three-month average daily balance were $243.6 million at September 30, 2023.

The following table shows the risk-weight distribution as of September 30, 2023 for ABS securities which are risk weighted using the SSFA approach. This table does not include accrued interest.

	ABS Securities by SSFA Risk Weight Classification		
(dollars in thousands)	**Automobile ABSs**	**Credit Card ABSs**	**Total**
0% – 50%	$ 69,463	$ 333,292	$ 402,755
50% – 100%	99,478	—	99,478
100% – 150%	54,750	—	54,750
Greater than 150%	49,997	—	49,997
Total Exposure	$ 273,688	$ 333,292	$ 606,980

As of September 30, 2023, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital. For the three months ended September 30, 2023, there were no sales of ABS securities that resulted in realized gains or losses.

Refer to Note 3, *Investments*, in the Notes to the Financial Statements for additional information related to purchases and sales of securitization exposures as well as the amortized cost, unrealized gains/(losses) and fair value of mortgage-backed securities (MBSs) and ABSs held in the Bank's investment portfolio.

EQUITIES

At September 30, 2023, the Bank had no equity investments other than equity investments in other Farm Credit institutions.

INTEREST RATE RISK

For discussion of AgFirst's market value of equity and projected change over the next twelve months in net interest income for various rate movements as of September 30, 2023, see the *Interest Rate Risk Management* section of Management's Discussion and Analysis of Financial Condition and Results of Operations.