Farm Credit of Central Florida, ACA

FIRST QUARTER 2023

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CERTIFICATION

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

Reginald T. Holt
Chief Executive Officer

Anne M. Sullivan
Chief Financial Officer

David A. Mereness
Chairman of the Audit committee

May 9, 2023

Farm Credit of Central Florida, ACA

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

(dollars in thousands)

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

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including horticulture, fruits/vegetables, citrus, and cattle. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the level of dependency on a given commodity.

March 31, 2023 compared to December 31, 2022

Loan volume of the Association as of March 31, 2023, was $835,632, an increase of $9,847 as compared to $825,785 at December 31, 2022. Net loans outstanding at March 31, 2023, were $832,964 as compared to $821,407 at December 31, 2022. The increase in loan volume since December 2022 is due to growth within the long-term portfolio of the Association. This is offset by the short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between October and December and declines between January and June as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops.

The Association has investment securities that are classified as held to maturity in the amount of $14,133 at March 31, 2023, as compared to $1,808 at December 31, 2022. Net loans and investment securities accounted for 96.87 percent of total assets at March 31, 2023, as compared to 96.29 percent of total assets at December 31, 2022.

The Association's total servicing portfolio has increased to $1,417,660 as compared to $1,375,077 at December 31, 2022, due to increased new money closings and a decrease in run-off and liquidations during the year.

March 31, 2023 compared to March 31, 2022

Loan volume of the Association as of March 31, 2023, was $835,632, an increase of $102,077 as compared to $733,555 at March 31, 2022. Net loans outstanding at March 31, 2023, were $832,964 as compared to $730,487 at March 31, 2022. The Association has investment securities that are classified as held to maturity in the amount of $14,133 at March 31, 2023, as compared to $2,415 at March 31, 2022. Net loans and investment securities accounted for 96.87 percent of total assets at March 31, 2023, as compared to 97.02 percent of total assets at March 31, 2022.

The Association's total servicing portfolio has increased to $1,417,660 as compared to 1,248,690 at March 31, 2022, due to increased new money closings and a decrease in run-off and liquidations over the past twelve months.

ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has slightly improved from year end and slightly declined from March 31, 2022. Acceptable and OAEM credit quality as a percentage of total loan portfolio was 99.32% as of March 31, 2023, compared to 98.58% at December 31, 2022 and 99.09% at March 31, 2022. Substandard credit quality was 0.68% as of March 31, 2023, compared to 1.42% at December 31, 2022 and 0.91% at March 31, 2022. The actual substandard asset volume has decreased by $6,037 from year-end December 31, 2022. Nonaccrual loan volume was $6,561 at March 31, 2023, compared to $9,839 at December 31, 2022 and $4,391 at March 31, 2022, a decrease of $3,278 and an increase of $3,278, respectively. The majority of the loan assets in nonaccrual are in the fruit and vegetable and blueberry industries.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2023, was $2,668 or 0.32% of total loans compared to $4,378 or 0.53% of total loans at December 31, 2022, and $3,068 or 0.42% of total loans at March 31, 2022, and is considered by management to be adequate to cover possible losses. The allowance for loan loss is broken down between specific reserves assigned to an individual loan and general reserves which are available for the possible losses within the entire portfolio. The current allowance for loan loss at March 31, 2023, contains $2,089 in specific reserves and $579 in general reserves.

Effective January 1, 2023, the Association adopted the CECL accounting guidance as describe in note 1. The following outlines the allowance for loan loss activity as of March 31, 2023.

Allowance for Loan Losses Activity:	**YTD 2023**
Balance at beginning of period	$ 4,378
Cumulative effect of change in accounting principal	(149)
Balance at January 1, 2023	4,229
Charge-offs	(6,620)
Recoveries	1
Provisions/(Reversals)-General	(257)
Provisions/(Reversals)–Specifics	5,315
Balance at end of period	$ 2,668

Allowance for Unfunded Commtiments Activity:	**YTD 2023**
Balance at beginning of period	$ –
Cumulative effect of change in accounting principal	111
Balance at January 1, 2023	111
Provision for unfunded commitments	3
Balance at end of period	$ 114

The charge-off taken in the first quarter of 2023 was on a large commercial vegetable loan. Chargeoffs are funded through the allowance from previous and/or current increases in the provision for loan losses**.**

RESULTS OF OPERATIONS

For the three months ended March 31, 2023

The Association recorded a net loss of $848 for the three months ended March 31, 2023, as compared to net income of $2,943 for the same period in 2022. The decrease of $3,791 for the period is associated directly with the $5,061 provision of loan loss taken for the period, offset by increased net interest income and increased patronage from other Farm Credit institutions.

Net interest income was $5,574 for the three months ended March 31, 2023, as compared to $4,372 for the same period in 2022. The increase of $1,202 or 27.49% is due to higher loan volumes and increased rates. Investment interest income increased by $100 to $105 from the prior period's $5 due to increased investment volume due to higher investment volume. Loan interest income was $11,693 as compared to the prior period's $7,681. The increase of $4,012 or 52.23% is due to higher loan volume and higher loan rates. Total interest expense was $6,224 as compared to the prior period's $3,314. The increase of $2,910, or 87.80%, is due to increased volume and increased cost of funds. Net interest income for the three months ending March 31, 2023, is shown in the following table:

Net Interest Income	For the three months ended March 31, 2023	2022	$ Change	% Change
Investment Interest Income	$ 105	$ 5	$ 100	2,000.00%
Loan Interest Income	11,693	7,681	4,012	52.23
Total Interest Income	11,798	7,686	4,112	53.50
Total Interest Expense	6,224	3,314	2,910	87.81
Net Interest Income	$ 5,574	$ 4,372	$ 1,202	27.49%

Allowance for loan loss activity for the quarter consisted of a $5,061 provision for the period compared to a $0 provision for loan losses for the same period prior year. The large provision for the quarter was due to one commercial credit that was in nonaccrual and charged off, as well as and one capital markets loan that was moved to nonaccraul during the quarter. Provisions for loan losses for the three months ending March 31, 2023 are shown in the following table:

Provisions/(Reversals) for Loan Losses	2023	2022	$ Change
General Reserves	$ (257)	$ (3)	$ (254)
Specific Reserves	5,315	3	5,312
Reserve for unfunded commitments	3	–	3
Total Provisions/(Reversals)	$ 5,061	$ –	$ 5,061

Noninterest income for the three months ended March 31, 2023, totaled $2,292, as compared to $1,905 for the same period of 2022, an increase of $387, or 20.31%. The increase is primarily the result of increased fees from financially related services and patronage refunds from other Farm Credit Institutions. The increase in fees from financially related services is due to timing differences in crop insurance income. The increase in patronage refunds from other Farm Credit Institutions is due to higher loan volumes sold to other institutions. Noninterest income for the three months ending March 31, 2023, is shown in the following table:

Noninterest Income	For the three months ended March 31, 2023	2022	$ Change	% Change
Loan fees	$ 117	$ 104	$ 13	12.50%
Fees for financially related services	108	9	99	1,100.00
Patronage refunds from other Farm Credit Institutions	2,016	1,751	265	15.13
Gains (losses) on sales of rural home loans, net	49	50	(1)	(2.00)
Gains (losses) on other transactions	1	(9)	10	(111.11)
Other noninterest income	1	–	1	–
Total noninterest income	$ 2,292	$ 1,905	$ 387	20.31%

Noninterest expense for the three months ended March 31, 2023, increased $319 compared to the same period of 2022, primarily due to increased salaries and employee benefits, increased occupancy and equipment, increased Insurance Fund premiums, and increased data processing. The increase in salaries and benefits is primarily due to increased headcount from 2022. The increase in occupancy and equipment is due to increases in maintenance at our administrative office. Farm Credit System Insurance Corporation (FCSIC) has set the premium to 18 basis points for 2023 (as compared to 16 bps for the first quarter of 2022) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans. The increase in data processing is due to new software initiatives for the Association. Noninterest expense for the three months ending March 31, 2023 is shown in the following table:

Noninterest Expense	For the three months ended March 31, 2023	2022	$ Change	% Change
Salary and employee benefits	$ 2,149	$ 1,965	$ 184	9.37%
Occupancy and equipment	288	244	44	18.03
Insurance Fund Premium	312	244	68	27.87
Purchased services	134	153	(19)	(12.42)
Data processing	86	52	34	65.38
Other operating expenses	684	676	8	1.18
Total noninterest expense	$ 3,653	$ 3,334	$ 319	9.57%

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2023, was $717,262 as compared to $694,754 at December 31, 2022. The increase is attributable to paydowns on loans being less than borrowings to fund new loans in the normal course of business.

CAPITAL RESOURCES

Total members' equity at March 31, 2023, decreased to $135,348 from the December 31, 2022, total of $136,451. The decrease is primarily attributed to the decrease in unallocated surplus resulting from the net loss during the quarter. Total capital stock and participation certificates were $1,206 on March 31, 2023, compared to $1,212 on December 31, 2022. This decrease is attributed to the retirement of stock and participation certificates in the normal course of business.

FCA sets minimum regulatory capital requirements with a capital conservation buffer for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2023
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.50%	7.00%	16.83%
Tier 1 Capital	6.0%	2.50%	8.50%	16.83%
Total Capital	8.0%	2.50%	10.50%	17.41%
Permanent Capital Ratio	7.0%	0.0%	7.0%	16.97%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	14.76%
UREE Leverage Ratio	1.5%	0.0%	1.5%	12.78%

** The capital conservation buffers had a 3 year phase-in period which became fully effective January 1, 2020.*

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

REGULATORY MATTERS

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

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

LIBOR Transition

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

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

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

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

(dollars in millions)	**Due in 2023 on or Before June 30,**	**Due after June 30, 2023**	**Total**
Loans	$ 45	$ 27,343	$ 27,388
Total Assets	$ 45	$ 27,343	$ 27,388
Note Payable to AgFirst Farm Credit Bank	$ 39	$ 23,683	$ 23,722
Total Liabilities	$ 39	$ 23,683	$ 23,722

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-533-2773, or writing Anne M. Sullivan, CFO, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802, or accessing the website, *www.farmcreditcfl.com.* The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit Of Central Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)		March 31, 2023		December 31, 2022
		(unaudited)		*(audited)*
Assets				
Cash	**$**	**12**	$	11
Investments in debt securities:				
Held to maturity (fair value of $14,100 and $1,788, respectively)		**14,133**		1,808
Loans		**835,632**		825,785
Allowance for loan losses		**(2,668)**		(4,378)
Net loans		**832,964**		821,407
Accrued interest receivable		**4,525**		4,248
Equity investments in other Farm Credit institutions		**11,064**		10,927
Premises and equipment, net		**4,424**		4,428
Accounts receivable		**2,654**		7,347
Other assets		**4,697**		4,764
Total assets	**$**	**874,473**	$	854,940
Liabilities				
Notes payable to AgFirst Farm Credit Bank	**$**	**717,262**	$	694,754
Accrued interest payable		**2,257**		2,004
Patronage refunds payable		**387**		10,262
Accounts payable		**546**		1,643
Other liabilities		**18,673**		9,826
Total liabilities		**739,125**		718,489
Commitments and contingencies (Note 8)				
Members' Equity				
Capital stock and participation certificates		**1,206**		1,212
Retained earnings				
Allocated		**17,827**		17,827
Unallocated		**115,742**		116,802
Accumulated other comprehensive income		**573**		610
Total members' equity		**135,348**		136,451
Total liabilities and members' equity	**$**	**874,473**	$	854,940

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

Farm Credit Of Central Florida, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended March 31, 2023	2022
Interest Income		
Loans	**$ 11,693**	$ 7,681
Investments	**105**	5
Total interest income	**11,798**	7,686
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**6,224**	3,314
Net interest income	**5,574**	4,372
Provision for credit losses	**5,061**	—
Net interest income after provision for credit losses	**513**	4,372
Noninterest Income		
Loan fees	**117**	104
Fees for financially related services	**108**	9
Patronage refunds from other Farm Credit institutions	**2,016**	1,751
Gains (losses) on sales of rural home loans, net	**49**	50
Gains (losses) on other transactions	**1**	(9)
Other noninterest income	**1**	—
Total noninterest income	**2,292**	1,905
Noninterest Expense		
Salaries and employee benefits	**2,149**	1,965
Occupancy and equipment	**288**	244
Insurance Fund premiums	**312**	244
Purchased services	**134**	153
Data processing	**86**	52
Other operating expenses	**684**	676
Total noninterest expense	**3,653**	3,334
Net income (loss)	**$ (848)**	$ 2,943
Other comprehensive income net of tax		
Employee benefit plans adjustments	**(37)**	54
Comprehensive income (loss)	**$ (885)**	$ 2,997

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

Farm Credit Of Central Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2021	$ 1,149	$ 19,103	$ 107,687	$ (631)	$ 127,308
Comprehensive income (loss)			2,943	54	2,997
Capital stock/participation certificates issued/(retired), net	37				37
Balance at March 31, 2022	$ 1,186	$ 19,103	$ 110,630	$ (577)	$ 130,342
Balance at December 31, 2022	**$ 1,212**	**$ 17,827**	**$ 116,802**	**$ 610**	**$ 136,451**
Cumulative effect of change in accounting principle			**38**		**38**
Comprehensive income (loss)			**(848)**	**(37)**	**(885)**
Capital stock/participation certificates issued/(retired), net	**(6)**				**(6)**
Patronage distribution adjustment			**(250)**		**(250)**
Balance at March 31, 2023	**$ 1,206**	**$ 17,827**	**$ 115,742**	**$ 573**	**$ 135,348**

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

Farm Credit of Central Florida, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

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

Accounting Standards Effective During the Period

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

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

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

	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for credit losses on loans	$ 4,378	$ (149)	$ 4,229
Liabilities:			
Allowance for credit losses on unfunded commitments	$ –	$ 111	$ 111
Retained earnings:			
Unallocated retained earnings	$ 115,742	$ 38	$ 115,780

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

Loans and Allowance for Credit Losses

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

Nonaccrual Loans

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

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

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

Accrued interest receivable

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral dependent loans

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

Allowance for Credit Losses

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

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

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

Methodology for Allowance for Credit Losses on Loans

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

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

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

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

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

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

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

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

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

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

Allowance for Credit Losses on Unfunded Commitments

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

Note 2 — Loans and Allowance for Credit Losses

A summary of loans outstanding at period end follows:

	March 31, 2023	December 31, 2022
Real estate mortgage	$ 509,930	$ 491,531
Production and intermediate-term	148,319	174,627
Agribusiness:		
Loans to cooperatives	11,311	8,574
Processing and marketing	92,733	86,916
Farm-related business	29,458	31,173
Rural infrastructure:		
Communication	11,359	8,661
Power and water/waste disposal	9,860	1,443
Rural residential real estate	16,222	16,420
Other:		
International	6,440	6,440
Total loans	$ 835,632	$ 825,785

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

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

	March 31, 2023							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 21,482	$ 81,544	$ 8,971	$ 21,607	$ –	$ –	$ 30,453	$ 103,151
Production and intermediate-term	34,414	41,513	5,246	5,124	–	–	39,660	46,637
Agribusiness	62,238	60,147	3,197	30,395	–	–	65,435	90,542
Rural infrastructure	21,338	–	–	–	–	–	21,338	–
Other	6,446	–	–	–	–	–	6,446	–
Total	$ 145,918	$ 183,204	$ 17,414	$ 57,126	$ –	$ –	$ 163,332	$ 240,330

	December 31, 2022							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 21,636	$ 82,545	$ 4,344	$ 21,702	$ –	$ –	$ 25,980	$ 104,247
Production and intermediate-term	34,722	70,753	5,762	5,123	–	–	40,484	75,876
Agribusiness	61,295	66,904	3,260	34,072	–	–	64,555	100,976
Rural infrastructure	10,133	–	–	–	–	–	10,133	–
Other	6,446	–	–	–	–	–	6,446	–
Total	$ 134,232	$ 220,202	$ 13,366	$ 60,897	$ –	$ –	$ 147,598	$ 281,099

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

	March 31, 2023	December 31, 2022*
Real estate mortgage:		
Acceptable	99.38%	99.37%
OAEM	0.50	0.54
Substandard/doubtful/loss	0.12	0.09
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	95.73%	92.97%
OAEM	1.01	0.74
Substandard/doubtful/loss	3.26	6.29
	100.00%	100.00%
Agribusiness:		
Acceptable	100.00%	99.99%
OAEM	–	–
Substandard/doubtful/loss	–	0.01
	100.00%	100.00%
Rural infrastructure:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	97.84%	97.84%
OAEM	0.67	0.66
Substandard/doubtful/loss	1.49	1.50
	100.00%	100.00%
Other:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	98.82%	98.09%
OAEM	0.50	0.49
Substandard/doubtful/loss	0.68	1.42
	100.00%	100.00%

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

Accrued interest receivable on loans of $4,401 and $4,228 at March 31, 2023 and December 31, 2022, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

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

	March 31, 2023					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
Real estate mortgage	$ 190	$ 391	$ 581	$ 509,349	$ 509,930	$ –
Production and intermediate-term	531	866	1,397	146,922	148,319	–
Agribusiness	–	–	–	133,502	133,502	–
Rural infrastructure	–	–	–	21,219	21,219	–
Rural residential real estate	118	99	217	16,005	16,222	–
Other	–	–	–	6,440	6,440	–
Total	$ 839	$ 1,356	2,195	$ 833,437	$ 835,632	$ –

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

	December 31, 2022					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
Real estate mortgage	$ 176	$ 1,778	$ 1,954	$ 492,439	$ 494,393	$ –
Production and intermediate-term	141	1,398	1,539	173,888	175,427	–
Agribusiness	8	–	8	127,101	127,109	–
Rural infrastructure	–	–	–	10,117	10,117	–
Rural residential real estate	326	99	425	16,060	16,485	–
Other	–	–	–	6,482	6,482	–
Total	$ 651	$ 3,275	$ 3,926	$ 826,087	$ 830,013	$ –

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

	March 31, 2023
Nonaccrual loans:	
Real estate mortgage	$ 1,644
Production and intermediate-term	4,787
Agribusiness	6
Rural residential real estate	124
Total	$ 6,561
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 6,561
Other property owned	–
Total nonperforming assets	$ 6,561
Nonaccrual loans as a percentage of total loans	0.79%
Nonperforming assets as a percentage of total loans and other property owned	0.79%
Nonperforming assets as a percentage of capital	4.85%

	December 31, 2022*
Nonaccrual loans:	
Real estate mortgage	$ 1,778
Production and intermediate-term	7,928
Agribusiness	8
Rural residential real estate	125
Total	$ 9,839
Accruing restructured loans:	
Real estate mortgage	$ 394
Production and intermediate-term	1,060
Total	$ 1,454
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 11,293
Other property owned	–
Total nonperforming assets	$ 11,293
Nonaccrual loans as a percentage of total loans	1.19%
Nonperforming assets as a percentage of total loans and other property owned	1.37%
Nonperforming assets as a percentage of capital	8.28%

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

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

	March 31, 2023			Three Months Ended March 31, 2023
Nonaccrual loans:	**Amortized Cost with Allowance**	**Amortized Cost without Allowance**	**Total**	**Interest Income Recognized on Nonaccrual Loans**
Real estate mortgage	$ 99	$ 1,545	$ 1,644	$ 27
Production and intermediate-term	2,587	2,200	4,787	79
Agribusiness	–	6	6	–
Rural residential real estate	99	25	124	2
Total	$ 2,785	$ 3,776	$ 6,561	$ 108

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for Loan Losses:							
Balance at December 31, 2022	$ 124	$ 3,942	$ 274	$ 9	$ 27	$ 2	$ 4,378
Cumulative effect of a change in accounting principle	(5)	(65)	(80)	(3)	3	1	(149)
Balance at January 1, 2023	$ 119	$ 3,877	$ 194	$ 6	$ 30	$ 3	$ 4,229
Charge-offs	–	(6,620)	–	–	–	–	(6,620)
Recoveries	1	–	–	–	–	–	1
Provision for loan losses	10	5,104	(42)	1	(14)	(1)	5,058
Balance at March 31, 2023	$ 130	$ 2,361	$ 152	$ 7	$ 16	$ 2	$ 2,668
Allowance for Unfunded Commitments:							
Balance at December 31, 2022	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Cumulative effect of a change in accounting principle	16	47	47	1	–	–	111
Balance at January 1, 2023	$ 16	$ 47	$ 47	$ 1	$ –	$ –	$ 111
Provision for unfunded commitments	(7)	(10)	21	(1)	–	–	3
Balance at March 31, 2023	$ 9	$ 37	$ 68	$ –	$ –	$ –	$ 114
Total allowance for credit losses	$ 139	$ 2,398	$ 220	$ 7	$ 16	$ 2	$ 2,782
Allowance for Loan Losses*:							
Balance at December 31, 2021	$ 1,033	$ 1,750	$ 257	$ 8	$ 17	$ 2	$ 3,067
Charge-offs	–	–	–	–	(1)	–	(1)
Recoveries	2	–	–	–	–	–	2
Provision for loan losses	65	(88)	4	–	19	–	–
Balance at March 31, 2022	$ 1,100	$ 1,662	$ 261	$ 8	$ 35	$ 2	$ 3,068

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

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

The Association had no loans held for sale at March 31, 2023 and December 31, 2022.

Troubled Debt Restructurings

Prior to the adoption of updated FASB guidance on loan modifications on January 1, 2023, a restructuring of a loan constituted a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program, were borrower-specific, and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a TDR, these loans were included within impaired loans under nonaccrual or accruing restructured loans. There were no new TDRs that occurred during the three months ended March 31, 2022.

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

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the three months ended March 31, 2022. Payment default is defined as a payment that was thirty days or more past due.

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

	December 31, 2022*	
	Total TDRs	Nonaccrual TDRs
Real estate mortgage	$ 394	$ –
Production and intermediate-term	1,149	89
Rural residential real estate	83	83
Total loans	$ 1,626	$ 172
Additional commitments to lend	$ –	

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

Note 3 — Investments

Investments in Debt Securities

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

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

	March 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 14,133	$ 52	$ (85)	$ 14,100	7.10%

	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 1,808	$ 4	$ (24)	$ 1,788	6.22%

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

	March 31, 2023		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 2	$ 2	4.61%
After one year through five years	4	4	6.11
After five years through ten years	7,323	7,332	7.25
After ten years	6,804	6,762	6.93
Total	$ 14,133	$ 14,100	7.10%

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

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were 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. Following the adoption of CECL on January 1, 2023, this table is no longer required for held-to-maturity securities. Therefore, there is no table presented for the current period.

	December 31, 2022			
	Less Than 12 Months		12 Months Or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 298	$ (1)	$ 930	$ (23)

The Association evaluates investment securities with unrealized losses for impairment on a quarterly basis. As part of this assessment, it was evaluated and concluded that the Association does not intend to sell the security, or it is more likely than not that the Association would be required to sell the security prior to recovery of the amortized cost basis. The Association also evaluates whether credit impairment exists by comparing the present value of expected cash flows to the securities amortized cost basis. Credit impairment, if any, is recorded as an ACL for debt securities. At March 31, 2023, the Association does not consider any unrealized losses to be credit-related and an allowance for credit losses is not necessary.

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 2.62 percent of the issued stock and allocated retained earnings of the Bank as of March 31, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled $42.6 billion and shareholders' equity totaled $1.6 billion. The Bank's earnings were $70 million for the first three months of 2023. In addition, the Association held investments of $1,059 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component *(a)*	
	Three Months Ended March 31,	
	2023	2022
Employee Benefit Plans:		
Balance at beginning of period	$ 610	$ (631)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	(37)	54
Net current period other comprehensive income	(37)	54
Balance at end of period	$ 573	$ (577)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*				
	Three Months Ended March 31,				
		2023		**2022**	**Income Statement Line Item**
Defined Benefit Pension Plans:					
Periodic pension costs	$	37	$	(54)	See Note 7.
Net amounts reclassified	$	37	$	(54)	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	March 31, 2023			**Total Fair Value**
	Fair Value Measurement Using			
	Level 1	**Level 2**	**Level 3**	
Recurring assets				
Assets held in trust funds	$ 950	$ –	$ –	$ 950
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ 696	$ 696
Other property owned	$ –	$ –	$ –	$ –

	December 31, 2022			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 945	$ –	$ –	$ 945
Nonrecurring assets				
Impaired loans*	$ –	$ –	$ 6,680	$ 6,680
Other property owned	$ –	$ –	$ –	$ –

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

Valuation Techniques

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

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

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

Note 7 — Employee Benefit Plans

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

	Three Months Ended March 31,	
	2023	2022
Pension	$ 66	$ 191
401(k)	198	182
Other postretirement benefits	63	51
Total	$ 327	$ 424

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

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Leases

Lessee

The Association leases certain assets, consisting primarily of real estate, transportation and office equipment, under standard industry terms. The contracts are assessed at inception to determine whether a contract is, or contains, a lease.

The components of lease costs were as follows:

	Three Months Ended March 31, 2023	Year Ended December 31, 2022
Operating lease cost	$ 97	$ 381
Variable lease cost (costs excluded from lease payments)	32	113
Sublease income	–	–
Lease costs	$ 129	$ 494

Other information related to leases was as follows:

	Three Months Ended March 31, 2023	Year Ended December 31, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 106	$ 409
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ –	$ 38

Lease term and discount rate for the periods ended were as follows:

	March 31, 2023	December 31, 2022
Weighted average remaining lease term in years:		
Operating leases	12.70	12.95
Weighted average discount rate:		
Operating leases	3.10%	3.10%

Maturities of lease liabilities as of period end were as follows:

	Operating Leases March 31, 2023
2023	$ 315
2024	429
2025	439
2026	449
2027	456
Thereafter	4,050
Total lease payments	6,138
Less: imputed interest	1,107
Total lease liabilities	$ 5,031

Note 10 — Subsequent Events

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