AGFIRST FARM CREDIT BANK & DISTRICT ASSOCIATIONS

2022 ANNUAL FINANCIAL INFORMATION

FARM CREDIT

AgFirst Farm Credit Bank and District Associations December 31, 2022 Financial Information

(unaudited)

INTRODUCTION AND DISTRICT OVERVIEW

The following commentary reviews the Combined Financial Statements of condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the AgFirst District (District), for the years ended December 31, 2022, 2021, and 2020. AgFirst and the District Associations are part of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions and related service organizations. System institutions are generally organized as cooperatives. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses. AgFirst and each District Association are individually regulated by the Farm Credit Administration (FCA).

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

As of December 31, 2022, the District consisted of the Bank and eighteen District Associations. See *Other Matters* section below for details of merger activity among Associations in the District. All eighteen were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate and service both long-term real estate mortgage loans and short- and intermediate-term loans.

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

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

AgFirst and the Associations are chartered to serve eligible borrowers in Alabama, Delaware, Florida, Georgia, Maryland, Mississippi, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia, Puerto Rico, and portions of Kentucky, Louisiana, Ohio, and Tennessee. As of December 31, 2022, two other Farm Credit Banks (FCBs) and an Agricultural Credit Bank (ACB), through a number of associations, provided loans and related services to eligible borrowers primarily in the remaining portion of the United States. While owned by its related associations, each FCB manages and controls its own business activities and operations. The ACB is owned by its related associations as well as other agricultural and rural institutions, including agricultural cooperatives. Associations are not commonly owned or controlled and each manages and controls its own business activities and operations.

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

Financial Highlights

(dollars in thousands)

As of December 31,	**2022**	**2021**	**2020**
Total loans	**$ 38,103,069**	$ 34,861,495	$ 32,170,077
Allowance for loan losses	**(181,254)**	(212,216)	(220,261)
Net loans	**$ 37,921,815**	$ 34,649,279	$ 31,949,816
Total assets	**$ 48,907,496**	$ 45,743,761	$ 42,447,462
Total shareholders' equity	**6,585,151**	7,329,678	7,107,520

Year Ended December 31,	**2022**	**2021**	**2020**
Net interest income	**$ 1,347,600**	$ 1,344,273	$ 1,250,634
(Reversal of) provision for allowance for loan losses	**(15,426)**	(3,553)	3,646
Noninterest expense, net	**(600,844)**	(535,566)	(517,703)
Net income	**$ 762,182**	$ 812,260	$ 729,285
Net interest income as a percentage of average earning assets	**2.91 %**	3.16 %	3.07 %
Net (charge-offs) recoveries to average loans	**0.00 %**	(0.01)%	0.02 %
Return on average assets	**1.62 %**	1.87 %	1.75 %
Return on average shareholders' equity	**10.73 %**	10.87 %	10.22 %
Operating expense as a percentage of net interest income and noninterest income	**48.37 %**	43.83 %	43.27 %
Average loans	**$ 36,467,661**	$ 33,163,811	$ 31,495,735
Average earning assets	**46,258,944**	42,607,256	40,755,472
Average assets	**47,174,706**	43,496,675	41,692,290

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

RESULTS OF OPERATIONS

Net Income

District net income totaled $762.2 million for the year ended December 31, 2022, a decrease $50.1 million from 2021. Net income of $812.3 million for the year ended December 31, 2021 was an increase of $83.0 million from 2020. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

Change in Net Income	**Year Ended December 31,**	
(dollars in thousands)	**2022**	**2021**
Net income (for prior year)	$ 812,260	$ 729,285
Increase (decrease) in Net income due to:		
Total interest income	372,700	(77,506)
Total interest expense	(369,373)	171,145
Net interest income	3,327	93,639
Provision for loan losses	11,873	7,199
Noninterest income	(4,886)	50,834
Noninterest expense	(60,258)	(68,006)
Provision for income taxes	(134)	(691)
Total increase (decrease) in net income	(50,078)	82,975
Net income	$ 762,182	$ 812,260

Interest Income

Total interest income for the year ended December 31, 2022 was $1.905 billion, an increase of $372.7 million, as compared to the same period of 2021. Total interest income for the year ended December 31, 2021 was $1.532 billion, a decrease of $77.5 million, as compared to the same period of 2020. The increase in interest income in 2022 resulted from higher yields and volume of interest-earning assets. The decrease in interest income in 2021 resulted from lower yields on earning assets as borrowers refinanced at lower interest rates in the historically low interest rate environment. The average yield on interest earning assets increased 52 basis points from 2021 to 2022 and decreased 35 basis points from 2020 to 2021. The average volume of interest earning assets increased $3.652 billion in 2022 and $1.852 billion in 2021.

The following table illustrates the impact of volume and yield changes on interest income:

Net Change in Interest Income	**Year Ended December 31,**	
(dollars in thousands)	**2022-2021**	**2021-2020**
Current year increase (decrease) in average earning assets	$ 3,651,688	$ 1,851,784
Prior year average yield	3.60 %	3.95 %
Interest income variance attributed to change in volume	131,321	73,141
Current year average earning assets	46,258,944	42,607,256
Current year increase (decrease) in average yield	0.52 %	(0.35) %
Interest income variance attributed to change in yield	241,379	(150,647)
Net change in interest income	$ 372,700	$ (77,506)

Interest Expense

Total interest expense for the year ended December 31, 2022 was $557.3 million, an increase of $369.4 million, as compared to the same period of 2021. Total interest expense for the year ended December 31, 2021 was $188.0 million, a decrease of $171.1 million, as compared to the same period of 2020.

The following table illustrates the impact of volume and rate changes on interest expense:

Net Change in Interest Expense	**Year Ended December 31,**	
(dollars in thousands)	**2022-2021**	**2021-2020**
Current year increase (decrease) in average interest-bearing liabilities	$ 4,064,386	$ 1,458,412
Prior year average rate	0.53 %	1.06 %
Interest expense variance attributed to change in volume	21,546	15,405
Current year average interest-bearing liabilities	39,520,121	35,455,735
Current year increase (decrease) in average rate	0.88 %	(0.53) %
Interest expense variance attributed to change in rate	347,827	(186,550)
Net change in interest expense	$ 369,373	$ (171,145)

The increase in interest expense in 2022 was the result of rising interest rates as existing debt matured and was replaced with debt at higher rates. During 2022, there were no opportunities to call and replace debt at lower rates. In contrast, during 2021 and 2020, the COVID-19 impact on interest rates provided the Bank opportunities to call and replace $7.251 billion and $43.043 billion of debt, respectively. The average rate reduction for the debt called in 2021 (i.e., the difference between the rates on the called bonds and the rates on the replacement bonds) was 22 basis points, resulting in interest expense savings of $64.3 million, net of debt extinguishment expense of $9.2 million, over the remaining life of the bonds of 3.77 years. For the year ended December 31, 2020, the average rate reduction for the called bonds was 63 basis points, resulting in interest expense savings of $954.8 million, net of debt extinguishment expense of $65.5 million, over the remaining life of the bonds of 4.27 years. Replacement bonds generally have terms similar to those of the bonds being replaced.

Net Interest Income

Net interest income increased in 2022 and 2021, as illustrated by the following table:

District Analysis of Net Interest Income
Year Ended December 31,
(dollars in thousands)

	2022			**2021**			**2020**		
	Avg. Balance	**Interest**	**Avg. Yield**	**Avg. Balance**	**Interest**	**Avg. Yield**	**Avg. Balance**	**Interest**	**Avg. Yield**
Loans	$ 36,467,661	$ 1,698,585	4.66 %	$ 33,163,811	$ 1,399,131	4.22 %	$ 31,495,735	$ 1,446,870	4.59 %
Investments	9,555,058	201,312	2.11	9,320,822	132,955	1.43	9,030,846	160,823	1.78
Other	236,225	5,031	2.13	122,623	142	0.12	228,891	2,041	0.89
Total earning assets	46,258,944	1,904,928	4.12	42,607,256	1,532,228	3.60	40,755,472	1,609,734	3.95
Interest-bearing liabilities	39,520,121	(557,328)	1.41	35,455,735	(187,955)	0.53	33,997,323	(359,100)	1.06
Spread			2.71			3.07			2.89
Impact of capital	$ 6,738,823		0.20	$ 7,151,521		0.09	$ 6,758,149		0.18
Net Interest Income (NII) & NII to average earning assets		$ 1,347,600	2.91 %		$ 1,344,273	3.16 %		$ 1,250,634	3.07 %

Net interest income for the year ended December 31, 2022 was $1.348 billion compared to $1.344 billion for the same period of 2021, an increase of $3.3 million, or 0.25 percent. For the year ended December 31, 2021, net interest income increased $93.6 million, or 7.49 percent, from $1.251 billion in 2020. The net interest margin, which is net interest income as a percentage of average earning assets, was 2.91 percent, 3.16 percent, and 3.07 percent for the years ended December 31, 2022, 2021, and 2020, respectively, a decrease of 25 basis points and an increase of 9 basis points, respectively. The decrease in the net interest margin in 2022 is primarily the result of higher rates paid on interest-bearing liabilities, partially offset by higher yields and volume of interest earning assets. The increase in net interest margin in 2021 resulted primarily from lower rates paid on interest-bearing liabilities and higher earning asset volume, partially offset by refinancing of interest-earning assets at lower interest rates. Changes in net interest margin are influenced by the Bank's ability to call and replace debt as discussed above.

Provision for Loan Losses

AgFirst and the District Associations measure risks inherent in their individual loan portfolios on an ongoing basis and, as necessary, recognize provision for loan loss expense so that appropriate allowances for loan losses are maintained. Provision for loan losses was a provision reversal of $15.4 million for the year ended December 31, 2022, compared to a provision reversal of $3.6 million and provision expense of $3.6 million for the years ended December 31, 2021 and 2020, respectively. The provision reversal in 2022 was primarily the result of the reduction in qualitative reserves previously established during the pandemic. The decrease in 2021 resulted primarily from a decrease in provision expense for general reserves.

The $15.4 million in net provision reversal for the year ended December 31, 2022 consisted of $16.0 million of net provision reversal for general reserves and $583 thousand of provision expense for specific reserves. Net provision reversal in 2022 primarily related to borrowers in the poultry ($9.7 million reversal), forestry ($3.4 million reversal), corn ($1.8 million reversal), cotton ($1.5 million reversal), processing ($3.4 million expense), and field crops ($2.3 million expense) segments.

The $3.6 million in net provision reversal for the year ended December 31, 2021 consisted of $6.3 million of net provision reversals for general reserves and $2.7 million of provision expense for specific reserves. Net provision expense in 2021 primarily related to borrowers in the poultry ($3.6 million reversal), swine ($1.5 million reversal), dairy ($1.5 million reversal), cattle ($1.0 million reversal), tree fruits and nuts ($2.6 million expense), utilities ($1.6 million expense), field crops ($1.3 million expense), fruits/vegetables ($1.2 million expense), and forestry ($1.1 million expense) segments.

The $3.6 million in net provision expense for the year ended December 31, 2020 consisted of $13.0 million of provision expense for general reserves and $9.4 million of net provision reversals for specific reserves. Net provision expense in 2020 primarily related to borrowers in the poultry ($9.5 million expense), other ($3.0 million expense), forestry ($2.9 million expense), rural home loan ($2.3 million expense), swine ($2.0 million expense), processing ($1.1 million expense), cattle ($1.0 million expense), nursery/greenhouse ($13.3 million reversal), other real estate ($3.3 million reversal), and dairy ($2.4 million reversal) segments.

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

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income				**Increase (Decrease)**	
	For the Year Ended December 31,			**2022/**	**2021/**
(dollars in thousands)	**2022**	**2021**	**2020**	**2021**	**2020**
Loan fees	$ 40,379	$ 52,979	$ 41,402	$ (12,600)	$ 11,577
Fees for financially related services	21,280	19,826	14,500	1,454	5,326
Net impairment losses on investments	—	—	(102)	—	102
Gains on investments, net	—	330	7,215	(330)	(6,885)
Gains (losses) on debt extinguishment	56	(9,204)	(65,475)	9,260	56,271
Gains on other transactions	2,986	11,392	20,651	(8,406)	(9,259)
Insurance premium refund	—	—	6,813	—	(6,813)
Patronage refunds from other Farm Credit institutions	21,572	15,211	13,561	6,361	1,650
Other noninterest income	6,792	7,417	8,552	(625)	(1,135)
Total noninterest income	$ 93,065	$ 97,951	$ 47,117	$ (4,886)	$ 50,834

Noninterest income decreased $4.9 million from 2021 to 2022 and increased $50.8 million from 2020 to 2021. Line-item dollar variances greater than $2.0 million are discussed below.

Loan fees decreased $12.6 million and increased $11.6 million for the years ended December 31, 2022 and 2021, respectively, compared to the prior years. The decrease for 2022 was primarily due to lower fee income from loans made under the SBA Paycheck Protection Program (PPP) of $8.3 million as the program stopped accepting new loans in 2021. Additionally, there was a $6.0 million decrease in fee income from loan originations as mortgage refinances slowed as a result of the rising rate environment. The increase for 2021 was primarily due to a $6.0 million increase in loan origination fees primarily as a result of mortgage refinances in the low interest rate environment and a $5.0 million increase in fee income on loans made under the PPP.

For the year ended December 31, 2021, fees for financially related services increased $5.3 million due primarily to an increase of $4.9 million in crop/hail and multi-peril insurance income. The increase resulted primarily from sales of new insurance products related to hurricane protection.

Gains on investments decreased $6.9 million for the year ended December 31, 2021. As part of its normal portfolio management activities, the Bank periodically packages and sells amortizing securities that have relatively small remaining balances and correspondingly high administrative costs. There were no sales of investment securities in 2022. During 2021, the Bank sold such securities with a par value of approximately $43.9 million and recognized net gains of $330 thousand compared to sales of securities with a par value of approximately $55.9 million and net gains of $7.2 million recorded during 2020.

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 $7.251 billion for the year ended December 31, 2021 compared to $43.043 billion for the year ended December 31, 2020. Despite not exercising any call options on bonds during 2022, the Bank repurchased and subsequently cancelled one discount note that resulted in $56 thousand in gains during 2022. Accordingly, losses on debt extinguishment decreased $9.3 million and $56.3 million for the years ended December 31, 2022, and 2021, respectively.

Gains on other transactions decreased $8.4 million and $9.3 million for the years ended December 31, 2022 and 2021, respectively. For 2022, the variance resulted primarily from an $8.9 million decrease in the market value of certain nonqualified retirement plan trust assets as a result of the increase in interest rates. For 2021, the variance resulted primarily from a decrease of $11.1 million in gains of sales of rural residential loans due to loan sales in 2020 to manage long-term risk during a period of market volatility. In addition, gains recognized on the fair value of mortgage servicing rights decreased by $1.8 million in 2021. For 2021, a decrease of $1.3 million in provision expense for unfunded commitments and an increase of $1.3 million in gains on sales of fixed assets, which resulted primarily from the sales of automobiles at several Associations, partially offset the decreases above.

During 2020, the District received insurance premium refunds of $6.8 million from the FCSIC, which insures the System's debt obligations. These refunds are nonrecurring and resulted from the assets of the FCSIC exceeding the secure base amount, as defined by the Farm Credit Act, at the end of the preceding year. No refunds were received in 2022 or 2021.

Patronage refunds from other Farm Credit institutions increased $6.4 million for the year ended December 31, 2022 primarily due to income received on increased loan participations sold to them.

Noninterest Expenses

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses	**For the Year Ended December 31,**			**Increase (Decrease)**	
				2022/	**2021/**
(dollars in thousands)	**2022**	**2021**	**2020**	**2021**	**2020**
Salaries and employee benefits	$ 373,910	$ 354,054	$ 338,414	$ 19,856	$ 15,640
Occupancy and equipment	29,049	27,365	27,808	1,684	(443)
Insurance fund premiums	67,093	47,212	26,976	19,881	20,236
Purchased services	74,212	58,426	41,078	15,786	17,348
Data processing	38,454	31,506	24,149	6,948	7,357
Other operating expenses	114,154	113,530	103,105	624	10,425
(Gains) losses from other property owned	(4,821)	(300)	2,257	(4,521)	(2,557)
Total noninterest expenses	$ 692,051	$ 631,793	$ 563,787	$ 60,258	$ 68,006

Noninterest expenses increased $60.3 million and $68.0 million for the years ended December 31, 2022 and 2021, respectively, compared to the prior years. Line item dollar variances greater than $2.0 million are discussed below.

Salaries and employee benefits expenses increased $19.9 million and $15.6 million for the years ended December 31, 2022 and 2021, respectively. The increases for both 2022 and 2021 resulted primarily from increases of $10.1 million and $12.8 million, respectively, in higher salaries due to normal salary administration and an increase in headcount of 60 and 107, respectively. The increases in both 2022 and 2021 were also due to increased performance-based incentives of $5.0 million and $3.1 million, respectively.

Insurance fund premiums increased $19.9 million and $20.2 million for the years ended December 31, 2022 and 2021, respectively. The increase in 2022 resulted primarily due to an increase in the premium assessment rate from 16 basis points in 2021 to 20 basis points in 2022. The increase in 2021 was the result of rates increasing from 8 basis points in the first half of 2020 and 11 basis points in the second half of 2020 to 16 basis points in 2021.

As a result of significant technology initiatives (primarily loan accounting and loan origination systems, and data management enhancements), purchased services increased by $15.8 million and $17.3 million for the years ended December 31, 2022 and 2021, respectively. In addition, data processing expenses increased $6.9 million and $7.4 million for the years ended December 31, 2022 and 2021, respectively. The increases for both periods resulted primarily from higher software and hardware depreciation and maintenance costs as a result of new systems purchased as part of the technology modernization initiatives.

Other operating expenses increased $10.4 million for the year ended December 31, 2021 primarily from an increase of $4.3 million in periodic pension and postretirement benefit costs which were incurred primarily due to a significant number of lump sum payments related to retirements that triggered settlement accounting under GAAP. Public and member relations expenses and travel and meeting expenses increased by $2.0 million and $1.4 million, respectively, as expenses returned to pre-pandemic levels in 2021 following reductions in 2020 due to the COVID-19 pandemic.

Gains on other property owned increased by $4.5 million and $2.6 million for the years ended December 31, 2022 and 2021, respectively. For both periods compared to the prior year, these increases resulted from higher gains on sales and lower write-downs.

LOAN PORTFOLIO

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

Loan Types *(dollars in thousands)*	**2022**		**2021**		**2020**	
Real Estate Mortgage	$ 19,567,465	51.35 %	$ 18,585,303	53.31 %	$ 16,849,843	52.38 %
Production and Intermediate-Term	7,087,492	18.60	6,804,869	19.52	6,758,318	21.01
Rural Residential Real Estate	3,718,275	9.76	3,437,224	9.86	3,480,143	10.82
Processing and Marketing	3,387,983	8.89	2,808,239	8.06	2,209,669	6.87
Power and Water/Waste Disposal	1,333,572	3.50	796,698	2.29	606,739	1.89
Communication	1,051,506	2.76	786,992	2.26	734,958	2.28
Loans to Cooperatives	763,647	2.01	698,651	2.00	750,943	2.33
Farm-Related Business	581,143	1.53	453,413	1.30	380,011	1.18
Other (including Mission Related)	218,201	0.57	159,177	0.46	83,094	0.26
International	214,546	0.56	157,547	0.45	168,952	0.52
Loans to Other Financing Institutions (OFIs)	166,260	0.44	159,061	0.45	137,098	0.43
Lease Receivables	12,979	0.03	14,321	0.04	10,309	0.03
Total	$ 38,103,069	100.00 %	$ 34,861,495	100.00 %	$ 32,170,077	100.00 %

Total loans outstanding were $38.103 billion at December 31, 2022, an increase of $3.242 billion, or 9.30 percent, compared to total loans outstanding at December 31, 2021 and an increase of $2.691 billion, or 8.37 percent, from December 31, 2020 to December 31, 2021.

In 2022, loan growth for the combined District portfolio was primarily in the utilities, processing, forestry, rural home loans, and grains segments. In 2021, loan growth was primarily in the forestry, field crops, processing, cattle, and grains segments. Loan growth in 2022 was primarily due to a combination of factors including new client acquisition, an increase in transactions due to government initiatives to expand broadband across the United States, expansion activities within the protein complex, borrower liquidity needs due to commodity price escalation, and merger and acquisition activity. Loan growth in 2021 was primarily due to new client acquisition and commodity price increases which amplified funding demands by farmers.

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.

Credit quality of District loans including accrued interest at December 31 is shown in the following table:

	Total Loan Portfolio Credit Quality as of:		
Classification	**2022**	**2021**	**2020**
Acceptable	97.41 %	96.51 %	95.29 %
OAEM	1.38 %	1.94 %	2.67 %
Substandard/doubtful/loss	1.21 %	1.55 %	2.04 %
Total	100.00 %	100.00 %	100.00 %

Delinquencies (loans 90 days or more past due) were 0.22 percent of total loan assets at year-end 2022 compared to 0.27 percent and 0.36 percent at year-end 2021 and 2020, respectively.

At December 31, 2022, nonperforming assets for the District represented 0.88 percent of total loans and other property owned, or $333.8 million, compared to 0.99 percent, or $344.6 million, for 2021, and 1.17 percent, or $375.4 million, for 2020. Nonperforming assets consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due, and other property owned.

The District recognized net loan recoveries of $560 thousand, net loan charge-offs of $4.5 million, and net loan recoveries of $5.5 million in 2022, 2021, and 2020, respectively. As a percentage of total average loans, net recoveries for the District were 0.00 percent for 2022 compared to net loan charge-offs of 0.01 percent, and net recoveries of 0.02 percent for 2021 and 2020, respectively. The Bank as well as each Association maintains an allowance for loan losses, determined by its management based upon its unique situation.

The District employs a number of risk management techniques to limit credit exposures. The District has adopted underwriting standards, individual borrower exposure limits, commodity exposure limits, and other risk management techniques. AgFirst and the Associations actively purchase and sell loan participations to enhance the diversification of their portfolios. The District utilizes guarantees from U.S. government agencies/departments, including the Federal Agricultural Mortgage Corporation (Farmer Mac), the Farm Service Agency, and the Small Business Administration, as well as state government guarantees to further limit credit exposures. At December 31, 2022, the District collectively had $2.653 billion (6.96 percent of the total loan portfolio) under such government or GSE guarantees, compared to $2.703 billion (7.75 percent) and $2.869 billion (8.92 percent) at 2021 and 2020, respectively.

As mentioned above, the Associations serve primarily all or a portion of fifteen states and Puerto Rico. Additionally, AgFirst and the Associations actively purchase and sell loans and loan participations with non-District institutions. The resulting geographic diversity is a natural credit risk-reducing factor. The geographic distribution of the District's loan volume outstanding by state at December 31 is shown in the following table:

	District Loan Volume by State*		
State	**2022**	**2021**	**2020**
North Carolina	15 %	16 %	16 %
Georgia	11	11	11
Florida	9	8	8
Pennsylvania	9	9	8
Virginia	8	8	9
Ohio	7	7	7
South Carolina	5	5	6
Maryland	5	5	6
Alabama	4	5	4
Kentucky	3	3	3
Texas	3	2	2
Mississippi	2	2	2
Louisiana	2	2	2
New York	2	1	1
Other	15	16	15
Total	100 %	100 %	100 %

* *The distribution is based on the state in which the borrower is headquartered and may not be representative of their operations and business activities.*

At December 31, 2022, only two states have loan volume representing 10.00 percent or more of the total. Commodity diversification, guarantees, and borrowers with significant reliance on non-farm income further mitigate the geographic concentration risk in these states.

The District's credit portfolios are comprised of a number of segments having varying, and in some cases complementary, characteristics which helps mitigate credit risk. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer. The aggregate credit portfolio of the District by major commodity segments based on borrower eligibility at December 31 is shown in the following table:

	Percent of Portfolio		
Commodity Group - Eligibility	**2022**	**2021**	**2020**
Forestry	15 %	15 %	14 %
Rural Home	10	10	11
Field Crops	10	10	10
Poultry	9	10	11
Cattle	7	7	7
Grains	6	6	6
Processing	6	5	5
Utilities	5	4	4
Other Real Estate	4	4	4
Corn	4	4	4
Dairy	4	4	4
Tree Fruits and Nuts	3	3	3
Nursery/Greenhouse	3	3	3
Swine	2	2	3
Cotton	2	2	2
Other	10	11	9
Total	100 %	100 %	100 %

As illustrated in the above chart, at December 31, 2022, the District had concentrations of 10.00 percent or greater in only three commodities: forestry, rural home, and field crops. All three commodities have geographic dispersion over the entire AgFirst footprint.

Forestry is divided principally into hardwood and softwood production and value-added processing. The timber from hardwood production is further processed into furniture, flooring, and high-grade paper and is generally located at the more northern latitudes and higher elevations of the District. Softwood timber production is typically located in the coastal plains of the AgFirst District footprint and is used for building materials for the housing market and pulp to make paper and hygiene products. Timber producers at the Associations range in size from less than fifty acres to thousands of acres, with value-added processing being conducted at sawmills, planer mills, and paper mills.

The District's rural home loans consist primarily of first lien residential mortgages purchased by the Bank's Correspondent Lending Unit. At December 31, 2022, 19.54 percent of the loans in this portfolio include a long-term standby commitment to purchase (LTSP) from Federal National Mortgage Association (Fannie Mae) and/or Farmer Mac, thereby limiting credit risk to AgFirst. The LTSPs give AgFirst the right to deliver delinquent loans to the guarantor at par. The remaining loans are included in the Bank's allowance for loan losses methodology related to this portfolio.

The field crops commodity group represents a diverse group of commodities, including fruits, vegetables, and other non-grain crops such as peanuts, which are grown throughout the AgFirst District.

The diversity of income sources supporting District loan repayments, including a prevalence of non-farm income among the borrowers, further mitigates credit risk to AgFirst as demonstrated by the following table as of December 31:

	Percent of Portfolio		
Commodity Group - Repayment Dependency	**2022**	**2021**	**2020**
Non-Farm Income	34 %	35 %	35 %
Poultry	9	10	10
Forestry	6	7	7
Processing	6	5	5
Field Crops	6	6	6
Utilities	5	4	4
Grains	5	5	5
Corn	4	4	4
Dairy	3	4	4
Cattle	3	3	3
Tree Fruits and Nuts	3	3	2
Nursery/Greenhouse	2	2	2
Other Real Estate	2	2	2
Swine	2	2	2
Cotton	2	2	2
Other	8	6	7
Total	100 %	100 %	100 %

As a result of stable credit quality and the District's efforts to resolve problem assets, the District's high-risk assets continue to be a small percentage of the total loan volume and total assets. Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	December 31,		
(dollars in thousands)	**2022**	**2021**	**2020**
Nonaccrual loans:			
Real estate mortgage	$ 77,412	$ 90,654	$ 114,349
Production and intermediate-term	68,326	61,663	92,212
Processing and marketing	2,338	10,390	3,374
Farm-related business	4,441	4,032	2,008
Power and water/waste disposal	2,966	10,980	—
Rural residential real estate	19,200	19,757	18,897
Lease receivables	255	94	126
Total	$ 174,938	$ 197,570	$ 230,966
Accruing restructured loans:			
Real estate mortgage	$ 61,844	$ 74,377	$ 80,068
Production and intermediate-term	25,601	26,657	33,681
Processing and marketing	20,485	8,969	10,228
Farm-related business	432	169	512
Rural residential real estate	28,401	20,017	4,165
Lease receivables	—	—	24
Other (including mission related)	3,547	3,687	3,830
Total	$ 140,310	$ 133,876	$ 132,508
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 1,144	$ 405	$ 596
Production and intermediate-term	38	220	20
Processing and marketing	10,280	—	—
Rural residential real estate	1,587	5,781	535
Other (including mission related)	1,186	458	—
Total	$ 14,235	$ 6,864	$ 1,151
Total nonperforming loans	$ 329,483	$ 338,310	$ 364,625
Other property owned	4,310	6,285	10,751
Total nonperforming assets	$ 333,793	$ 344,595	$ 375,376
Nonaccrual loans as a percentage of total loans	0.46 %	0.57 %	0.72 %
Nonperforming assets as a percentage of total loans and other property owned	0.88 %	0.99 %	1.17 %
Nonperforming assets as a percentage of capital	5.07 %	4.70 %	5.28 %

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment. The following tables provide an aging analysis of the recorded investment in past due loans:

	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**
Real estate mortgage	$ 70,488	$ 34,242	$ 104,730	$ 19,615,099	$ 19,719,829
Production and intermediate-term	31,708	25,075	56,783	7,105,705	7,162,488
Loans to cooperatives	—	—	—	766,078	766,078
Processing and marketing	7,288	12,279	19,567	3,383,073	3,402,640
Farm-related business	1,772	1,582	3,354	580,977	584,331
Communication	—	—	—	1,052,339	1,052,339
Power and water/waste disposal	—	—	—	1,338,017	1,338,017
Rural residential real estate	45,923	10,730	56,653	3,670,693	3,727,346
International	—	—	—	216,523	216,523
Lease receivables	190	65	255	12,768	13,023
Loans to OFIs	—	—	—	166,666	166,666
Other (including Mission Related)	10,082	1,186	11,268	208,204	219,472
Total	$ 167,451	$ 85,159	$ 252,610	$ 38,116,142	$ 38,368,752

	December 31, 2021				
(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**
Real estate mortgage	$ 58,269	$ 38,576	$ 96,845	$ 18,616,845	$ 18,713,690
Production and intermediate-term	18,686	27,058	45,744	6,815,090	6,860,834
Loans to cooperatives	—	—	—	699,511	699,511
Processing and marketing	181	2,125	2,306	2,812,733	2,815,039
Farm-related business	1,367	3,060	4,427	451,184	455,611
Communication	—	—	—	787,137	787,137
Power and water/waste disposal	55,251	10,980	66,231	732,474	798,705
Rural residential real estate	29,956	12,593	42,549	3,402,798	3,445,347
International	—	—	—	158,146	158,146
Lease receivables	317	—	317	14,162	14,479
Loans to OFIs	—	—	—	159,327	159,327
Other (including Mission Related)	3,986	458	4,444	155,540	159,984
Total	$ 168,013	$ 94,850	$ 262,863	$ 34,804,947	$ 35,067,810

	December 31, 2020				
(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
Real estate mortgage	$ 55,907	$ 55,206	$ 111,113	$ 16,867,836	$ 16,978,949
Production and intermediate-term	27,779	44,927	72,706	6,746,670	6,819,376
Loans to cooperatives	—	—	—	751,810	751,810
Processing and marketing	975	2,981	3,956	2,211,971	2,215,927
Farm-related business	2,901	1,070	3,971	377,986	381,957
Communication	—	—	—	735,084	735,084
Power and water/waste disposal	—	—	—	608,380	608,380
Rural residential real estate	52,724	11,580	64,304	3,425,490	3,489,794
International	—	—	—	169,551	169,551
Lease receivables	303	—	303	10,060	10,363
Loans to OFIs	—	—	—	137,379	137,379
Other (including Mission Related)	4,411	—	4,411	79,283	83,694
Total	$ 145,000	$ 115,764	$ 260,764	$ 32,121,500	$ 32,382,264

District credit quality has remained stable, but it may be impacted in 2023 in response to potential changes in government support for agricultural sectors, inflationary input cost pressures, rising interest rates, and unforeseen impacts from geopolitical, trade, supply chain, weather, or animal- or human-related health events.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at December 31, 2022 were $174.9 million compared to $197.6 million at December 31, 2021. Nonaccrual loans decreased $22.6 million during the year ended December 31, 2021, due primarily to $100.9 million of repayments, $14.8 million in reinstatements to accrual status, and $4.6 million in charge-offs of uncollectible balances. Partially offsetting these decreases were $79.0 million in loans transferred into nonaccrual status, $8.5 million of advances on nonaccrual loans, and $5.9 million in recoveries. At December 31, 2022, total nonaccrual loans consisted primarily of the following industries: field crops (28.24 percent of the total), rural home loans (11.01 percent), poultry (9.66 percent), grains (8.82 percent), tree fruits and nuts (7.83 percent), forestry (6.39 percent), and cattle (6.35 percent). Nonaccrual loans were 0.46 percent of total loans outstanding at December 31, 2022 compared to 0.57 percent and 0.72 percent at December 31, 2021 and 2020, respectively.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank and District Associations would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank and District Associations. TDRs totaled $196.1 million at December 31, 2022, compared to $196.2 million at December 31, 2021. At December 31, 2022, TDRs were comprised of $140.3 million of accruing restructured loans and $55.8 million of nonaccrual restructured loans. Restructured loans were primarily in the rural home loan (17.02 percent of the total), field crops (13.09 percent), poultry (12.95 percent), forestry (8.65 percent), cattle (7.16 percent), grains (6.76 percent), dairy (6.18 percent), processing (5.73 percent), and tree fruits and nuts (5.23 percent) segments.

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 and District Associations (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $2.0 million during 2022 to $4.3 million at December 31, 2022. The decrease was due primarily to disposals of $6.0 million, partially offset by property received in settlement of loans of $3.6 million. At December 31, 2022, the largest OPO holding was in the tree fruits and nuts segment and totaled $1.5 million (34.20 percent of the total OPO balance).

Allowance for Loan Losses

Each District institution maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within its respective loan and finance lease portfolios as of each reported balance sheet date. The District increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan or lease is uncollectible. Any subsequent recoveries are added to the allowance. Management's evaluations consider factors which include, among other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions. Although aggregated in the District's combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities.

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Other Loans**	Total
Activity related to allowance for credit losses:										
Balance at December 31, 2021	$ 98,823	$ 79,314	$ 19,662	$ 2,102	$ 3,068	$ 8,341	$ 377	$ 107	$ 422	$ 212,216
Charge-offs	(1,220)	(2,179)	(126)	—	(864)	(1,311)	—	—	—	(5,700)
Recoveries	2,801	2,725	291	—	—	443	—	—	—	6,260
Provision for loan losses	(13,907)	(8,740)	5,112	703	(177)	1,427	8	138	10	(15,426)
Merger adjustment	(4,479)	(5,648)	(4,793)	(806)	(151)	(76)	(110)	(33)	—	(16,096)
Balance at December 31, 2022	$ 82,018	$ 65,472	$ 20,146	$ 1,999	$ 1,876	$ 8,824	$ 275	$ 212	$ 432	$ 181,254
Balance at December 31, 2020	$ 100,824	$ 85,000	$ 19,011	$ 2,378	$ 1,305	$ 10,563	$ 461	$ 330	$ 389	$ 220,261
Charge-offs	(3,175)	(3,896)	(908)	—	—	(2,065)	—	—	—	(10,044)
Recoveries	1,771	2,305	1,201	—	—	275	—	—	—	5,552
Provision for loan losses	(597)	(4,095)	358	(276)	1,763	(432)	(84)	(223)	33	(3,553)
Balance at December 31, 2021	$ 98,823	$ 79,314	$ 19,662	$ 2,102	$ 3,068	$ 8,341	$ 377	$ 107	$ 422	$ 212,216
Balance at December 31, 2019	$ 88,474	$ 91,557	$ 16,465	$ 2,348	$ 2,663	$ 8,316	$ 461	$ 388	$ 405	$ 211,077
Charge-offs	(1,061)	(8,160)	(893)	—	(150)	(217)	—	(7)	—	(10,488)
Recoveries	1,197	14,523	125	—	—	177	—	4	—	16,026
Provision for loan losses	12,159	(12,865)	3,314	30	(1,208)	2,287	—	(55)	(16)	3,646
Loan type reclassification	55	(55)	—	—	—	—	—	—	—	—
Balance at December 31, 2020	$ 100,824	$ 85,000	$ 19,011	$ 2,378	$ 1,305	$ 10,563	$ 461	$ 330	$ 389	$ 220,261
Allowance on loans evaluated for impairment:										
Individually	$ 4,308	$ 13,138	$ 467	$ —	$ 117	$ 1,060	$ —	$ 148	$ 92	$ 19,330
Collectively	77,710	52,334	19,679	1,999	1,759	7,764	275	64	340	161,924
PCI***	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2022	$ 82,018	$ 65,472	$ 20,146	$ 1,999	$ 1,876	$ 8,824	$ 275	$ 212	$ 432	$ 181,254
Individually	$ 4,570	$ 10,704	$ 435	$ —	$ 1,760	$ 627	$ —	$ —	$ 92	$ 18,188
Collectively	94,253	68,610	19,227	2,102	1,308	7,714	377	107	330	194,028
PCI***	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2021	$ 98,823	$ 79,314	$ 19,662	$ 2,102	$ 3,068	$ 8,341	$ 377	$ 107	$ 422	$ 212,216
Individually	$ 6,318	$ 12,769	$ 128	$ —	$ —	$ 568	$ —	$ 57	$ 92	$ 19,932
Collectively	94,506	72,231	18,883	2,378	1,305	9,995	461	273	297	200,329
PCI***	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2020	$ 100,824	$ 85,000	$ 19,011	$ 2,378	$ 1,305	$ 10,563	$ 461	$ 330	$ 389	$ 220,261
Recorded investment in loans evaluated for impairment:										
Individually	$ 223,979	$ 87,061	$ 27,587	$ —	$ 2,966	$ 552,466	$ —	$ 255	$ 4,733	$ 899,047
Collectively	19,495,540	7,075,427	4,725,462	1,052,339	1,335,051	3,174,880	216,523	12,768	381,405	37,469,395
PCI***	310	—	—	—	—	—	—	—	—	310
Balance at December 31, 2022	$ 19,719,829	$ 7,162,488	$ 4,753,049	$ 1,052,339	$ 1,338,017	$ 3,727,346	$ 216,523	$ 13,023	$ 386,138	$ 38,368,752
Individually	$ 272,655	$ 84,809	$ 20,939	$ —	$ 10,980	$ 633,918	$ —	$ 94	$ 4,145	$ 1,027,540
Collectively	18,440,589	6,776,025	3,949,222	787,137	787,725	2,811,429	158,146	14,385	315,166	34,039,824
PCI***	446	—	—	—	—	—	—	—	—	446
Balance at December 31, 2021	$ 18,713,690	$ 6,860,834	$ 3,970,161	$ 787,137	$ 798,705	$ 3,445,347	$ 158,146	$ 14,479	$ 319,311	$ 35,067,810
Individually	$ 316,166	$ 122,213	$ 15,755	$ —	$ —	$ 810,686	$ —	$ 243	$ 3,829	$ 1,268,892
Collectively	16,662,215	6,697,163	3,333,939	735,084	608,380	2,679,108	169,551	10,120	217,244	31,112,804
PCI***	568	—	—	—	—	—	—	—	—	568
Balance at December 31, 2020	$ 16,978,949	$ 6,819,376	$ 3,349,694	$ 735,084	$ 608,380	$ 3,489,794	$ 169,551	$ 10,363	$ 221,073	$ 32,382,264

* *Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*
** *Includes the loan types: Mission Related Loans and Loans to OFIs.*
*** *Purchased credit impaired loans.*

The allowance for loan losses was $181.3 million at December 31, 2022, as compared with $212.2 million and $220.3 million at December 31, 2021 and 2020, respectively. Activity which decreased the allowance during 2022 included merger adjustments (see further discussion of mergers in the *Other Matters* section) of $16.1 million, provision reversal of $15.4 million, and charge-offs of $5.7 million, partially offset by recoveries of $6.3 million. The largest commodity segments included in charge-offs during 2022 were related primarily to borrowers in the rural home loan (22.99 percent of the total), poultry (15.85 percent), utilities (15.15 percent), field crops (11.42 percent), and cattle (11.01 percent) segments. Recoveries during 2022 were related primarily to borrowers in the poultry (25.65 percent of the total), field crops (13.06 percent), tree fruits and nuts (11.84 percent), forestry (8.68 percent), and dairy (7.91 percent) segments. See *Provision for Loan Losses* section above for additional details regarding loan loss provision expense and reversals. The allowance at December 31, 2022, included specific reserves of $19.3 million (10.66 percent of the total) and $161.9 million (89.34 percent) of general reserves. The largest commodity segments included in the allowance at December 31, 2022 were the field crops (14.55 percent of the total), poultry (12.53 percent), forestry (10.62 percent), cattle (7.52 percent), other real estate (6.63 percent) and grains (5.69 percent) segments. The allowance for loan losses was 0.48 percent, 0.61 percent, and 0.68 percent of total loans outstanding at December 31, 2022, 2021, and 2020, respectively.

INVESTMENTS

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

The Bank's investments are primarily classified as available-for-sale investments. Refer to the Bank's 2022 Annual Report for additional information related to investments, including discussion on the significant increase in unrealized losses. District Associations also have regulatory authority to enter into certain government guaranteed investments, generally mortgage-backed or asset-backed securities. There were no impairment losses recorded by the District during the years ended December 31, 2022, and 2021. During 2020, there was one District Association that recorded additional impairment losses of $102 thousand on one investment security bringing cumulative impairment losses to $184 thousand on that security. There are no other cumulative impairment losses. The following tables summarize the District's investments:

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

	December 31, 2021			
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
District Bank investments	$ 9,314,698	$ 92,012	$ (67,506)	$ 9,339,204
District Association investments	30,905	3,235	(123)	34,017
Total District investments	$ 9,345,603	$ 95,247	$ (67,629)	$ 9,373,221

	December 31, 2020			
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
District Bank investments	$ 8,324,899	$ 199,536	$ (3,850)	$ 8,520,585
District Association investments	35,549	5,224	(186)	40,587
Total District investments	$ 8,360,448	$ 204,760	$ (4,036)	$ 8,561,172

CAPITAL

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

Total shareholders' equity decreased $744.5 million, or 10.16 percent, from December 31, 2021, to $6.585 billion at December 31, 2022. This decrease is primarily attributed to $1.016 billion in unrealized losses due to the significant increase in interest rates which decreased the fair value of existing available-for-sale fixed rate investment securities, cash patronage distributions of $397.5 million, and $31.2 million of retained earnings retired. This decrease is partially offset by net income of $762.2 million.

On June 15, 2022, the Bank's remaining perpetual preferred stock of $32.5 million was redeemed at par in accordance with the Bank's LIBOR transition plan.

In addition to the changes describe above, in accordance with merger accounting under GAAP, the Horizon Farm Credit merger that was effective on July 1, 2022 resulted in a net decrease in equity of $39.0 million.

The following table summarizes accumulated other comprehensive income (AOCI) balances at period end:

	December 31,		
(dollars in thousands)	**2022**	**2021**	**2020**
Accumulated Other Comprehensive Income (Loss)			
Unrealized gain (loss) on investment securities	$ (994,070)	$ 22,252	$ 190,792
Derivatives and hedging activity	—	201	287
Employee benefit plans activity	(250,024)	(267,139)	(356,429)
Total accumulated other comprehensive income (loss)	$ (1,244,094)	$ (244,686)	$ (165,350)

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

Regulatory Capital Requirements and Ratios

As of December 31, 2022	Primary Components of Numerator	Regulatory Minimums	Minimum with Buffer	Bank	District Associations
Risk adjusted:					
Common equity tier 1 capital ratio	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	4.50 %	7.00 %	15.32%	15.57% - 32.27%
Tier 1 capital ratio	CET1 capital, non-cumulative perpetual preferred stock	6.00 %	8.50 %	15.32%	15.57% - 32.27%
Total capital ratio	Tier 1 capital, allowance for loan losses[2], common cooperative equities[3] and term preferred stock and subordinated debt[4]	8.00 %	10.50 %	15.46%	16.36% - 33.08%
Permanent capital ratio	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.00 %	7.00 %	15.34%	15.68% - 32.50%
Non-risk adjusted:					
Tier 1 leverage ratio*	Tier 1 capital	4.00 %	5.00 %	6.09%	14.78% - 31.32%
URE and UREE component	URE and URE equivalents	1.50 %	1.50 %	5.37%	10.67% - 31.05%

[1] Equities outstanding 7 or more years
[2] Capped at 1.25% of risk-adjusted assets
[3] Outstanding 5 or more years, but less than 7 years
[4] Outstanding 5 or more years
** At least 1.50% must be URE and URE equivalents*

EMPLOYEE BENEFIT PLANS

The Bank and fourteen District Associations participate in the multiemployer AgFirst Farm Credit Retirement Plan, which is a qualified defined benefit final average pay plan (FAP Plan). Three District Associations participate in the multiemployer Independent Associations' Retirement Plan (IAR Plan), which is also a qualified defined benefit final average pay plan. In addition to the multiemployer defined benefit plans above, one Association also sponsors a single employer qualified defined benefit plan, the First South Farm Credit, ACA Retirement Plan (FS Plan). In addition, the Bank and 17 District Associations participate in a multiemployer qualified defined benefit other postretirement benefits plan (OPEB Plan), the Farm Credit

Benefits Alliance Retiree and Disabled Medical and Dental Plan, and the Bank and all 17 District Associations participate in the Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), a multiemployer qualified defined contribution 401(k) plan. These plans are qualified plans under the Internal Revenue Code.

The FAP Plan covers eligible employees hired prior to January 1, 2003. The IAR Plan covers eligible employees whose employment date is prior to January 1, 2009. The FS Plan covers eligible employees whose employment date is prior to January 1, 2009. Each plan is noncontributory. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. Pension benefits are primarily based on eligible compensation and years of service. The District entities funded $26.3 million, $49.8 million, and $40.3 million into these retirement plans for each of the three years ended December 31, 2022, 2021, and 2020, respectively. The expenses of these retirement plans included in noninterest expenses were $20.8 million, $43.1 million, and $37.7 million for 2022, 2021, and 2020, respectively. The plans' respective prepaid retirement expenses or liabilities are reflected in Other Assets or Other Liabilities in the District's Balance Sheets.

In addition to providing pension benefits, the District provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the District employees may become eligible for the benefits if they reach early retirement age while working for the Bank or District Associations. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. In addition, substantially all District employees who retired on or before December 1, 2007, after reaching early retirement age are provided retiree life insurance benefits. The OPEB Plan includes certain other Farm Credit System employees that are not employees of the Bank or District Associations and is accounted for as a multiemployer plan. Thus, the related net benefit plan obligations are not included in the District's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in salaries and employee benefit costs on the District's Statements of Comprehensive Income were $8.6 million for 2022, $8.1 million for 2021, and $7.7 million for 2020. At December 31, 2022, 2021, and 2020, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $167.9 million, $209.6 million, and $220.0 million, respectively.

The District also participates in the defined contribution 401(k) Plan which qualifies as a 401(k) plan as defined by the Internal Revenue Code. The District contributes $0.50 or $1.00 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 or 6.00 percent of total compensation, dependent upon each District entity's policy. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees who are not covered under the FAP Plan, the IAR Plan, or the FS Plan. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $20.8 million, $19.2 million, and $17.5 million for the years ended December 31, 2022, 2021, and 2020, respectively.

In addition to the multiemployer plans above, AgFirst and certain District Associations individually sponsor supplemental defined benefit and defined contribution retirement plans and offer a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the District's Combined Balance Sheets in Other Liabilities. The District entities contributed $1.3 million for each of the years ended December 31, 2022, 2021, and 2020 into these supplemental retirement plans. The supplemental retirement plans are unfunded and had a projected benefit obligation of $24.7 million and a net under-funded status of $24.7 million at December 31, 2022. The expenses of these nonqualified plans included in the District's noninterest expenses were $3.4 million, $3.0 million, and $3.2 million for the years ended December 31, 2022, 2021, and 2020, respectively.

The funding status and the amounts recognized in the Combined Balance Sheet of the District for postretirement benefit plans follows:

(dollars in thousands)	Pension Benefits FAP Plan	IAR Plan	FS Plan	Unfunded Benefit Plans
December 31, 2022				
Projected benefit obligations	$ 776,836	$ 63,875	$ 101,008	$ 24,652
Fair value of plan assets	744,268	56,540	89,963	—
Funded (unfunded) status	(32,568)	(7,335)	(11,045)	(24,652)
Accumulated benefit obligation	$ 737,738	$ 56,448	$ 95,336	$ 21,797
Assumptions used to determine benefit obligations:				
Discount rate	2.95 %	5.25 %	5.20 %	5.20 %
Expected long-term rate of return	4.65 %	6.30 %	6.50 %	N/A*
Rate of compensation increase	3.90 %	5.20 %	5.00 %	Varies

(dollars in thousands)	Pension Benefits FAP Plan	IAR Plan	FS Plan	Unfunded Benefit Plans
December 31, 2021				
Projected benefit obligations	$ 1,021,039	$ 89,065	$ 130,983	$ 32,222
Fair value of plan assets	981,904	80,379	115,078	—
Funded (unfunded) status	(39,135)	(8,686)	(15,905)	(32,222)
Accumulated benefit obligation	$ 957,177	$ 76,911	$ 120,802	$ 27,608
Assumptions used to determine benefit obligations:				
Discount rate	2.95 %	3.10 %	2.95 %	2.90 %
Expected long-term rate of return	4.65 %	4.30 %	6.50 %	N/A*
Rate of compensation increase	3.90 %	5.10 %	5.00 %	Varies

(dollars in thousands)	Pension Benefits FAP Plan	IAR Plan	FS Plan	Unfunded Benefit Plans
December 31, 2020				
Projected benefit obligations	$ 1,103,348	$ 97,212	$ 134,385	$ 32,056
Fair value of plan assets	988,899	84,634	102,957	—
Funded (unfunded) status	(114,449)	(12,578)	(31,428)	(32,056)
Accumulated benefit obligation	$ 1,030,647	$ 83,770	$ 122,795	$ 27,260
Assumptions used to determine benefit obligations:				
Discount rate	2.65 %	2.85 %	2.65 %	2.60 %
Expected long-term rate of return	4.65 %	4.30 %	6.50 %	N/A*
Rate of compensation increase	3.90 %	5.10 %	5.00 %	Varies

**Not applicable*

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 will replace the incurred loss methodology upon adoption. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be 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 would not be eligible for inclusion in a System institution's Tier 2 capital. The regulation does 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 does not include an exclusion for the CECL day 1 cumulative effective adjustment from the "safe harbor" deemed prior approval provision. The rule became effective on January 1, 2023.

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

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

OTHER MATTERS

Direct Notes

See the *Direct Notes* section of *Management's Discussion & Analysis of Financial Condition & Results of Operations* in the AgFirst Farm Credit Bank 2022 Annual Report for a discussion of the Bank's funding to District Associations.

Effective February 17, 2023, one Association with total assets of $185.9 million was operating under a special credit agreement with the Bank pursuant to the GFA. The GFA events of default are not expected to have a significant adverse impact on the Bank's or District's financial condition or results of operations. This Direct Note was subsequently downgraded to OAEM as a result of the events of default.

Association Merger Activity

Following approval by AgFirst, the FCA, and shareholders, effective July 1, 2022, MidAtlantic Farm Credit, ACA and AgChoice Farm Credit, ACA merged to form Horizon Farm Credit, ACA. Combined total assets for these two Associations approximate $6.2 billion.

Following approval by AgFirst, the FCA, and shareholders, effective January 1, 2023, Cape Fear Farm Credit, ACA merged with and into AgCarolina Farm Credit, ACA. Combined total assets for these two Associations approximate $2.6 billion as of December 31, 2022.

On May 24, 2022, the boards of AgSouth Farm Credit, ACA and Carolina Farm Credit, ACA signed a letter of intent to pursue a merger. The Associations, with combined total assets of $4.1 billion, anticipate a merger date of April 1, 2023, subject to receiving all regulatory and shareholder approvals required.

LIBOR Transition

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

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

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

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

	December 31, 2022				
(dollars in millions)	**Due Before June 30, 2023**	**Due After June 30, 2023**	**Total**	**% Due After June 30, 2023 to Balance Sheet Line Item**	**% Due After June 30, 2023 without fallback provisions**
Investments	$ —	$ 754	$ 754	8.3%	—%
Loans	54	2,562	2,616	6.7%	0.6%
Total Assets	$ 54	$ 3,316	$ 3,370	6.8%	0.5%
Systemwide debt securities	$ 35	$ —	$ 35	N/A	N/A
Total Liabilities and Equity	$ 35	$ —	$ 35	N/A	N/A

The Bank and Associations are actively monitoring LIBOR exposure of the financial instruments listed in the table above as part of the LIBOR Transition Plans (Plans). The Plans include implementing fallback language into variable-rate financial instruments which provides the ability to move these instruments to another index. To the extent that any loan has not been prepaid, redeemed or amended prior to June 30, 2023 to include a non-LIBOR fallback rate, pursuant to the LIBOR Act (Regulation ZZ), the LIBOR-based rate that would have been paid under such loan will be replaced by operation of law.

Balance Sheets

(unaudited)

(dollars in thousands)	As of December 31, 2022	2021	2020
Assets			
Cash	**$ 750,899**	$ 630,194	$ 698,542
Cash equivalents	**350,000**	400,000	520,000
Investments in debt securities:			
Available-for-sale (amortized cost of $10,055,933, $9,295,565, and 8,294,821, respectively)	**9,061,750**	9,317,572	8,485,350
Held-to-maturity (fair value of $37,522, $55,649, and $75,822, respectively)	**39,666**	50,038	65,627
Total investments in debt securities	**9,101,416**	9,367,610	8,550,977
Loans	**38,103,069**	34,861,495	32,170,077
Allowance for loan losses	**(181,254)**	(212,216)	(220,261)
Net loans	**37,921,815**	34,649,279	31,949,816
Loans held for sale	**1,720**	8,382	19,063
Accrued interest receivable	**296,439**	229,090	233,375
Accounts receivable	**53,540**	76,301	119,391
Equity investments in other Farm Credit institutions	**62,823**	57,455	52,717
Other Investments	**3,902**	2,426	1,794
Premises and equipment, net	**294,045**	249,421	224,578
Other property owned	**4,310**	6,285	10,751
Other assets	**66,587**	67,318	66,458
Total assets	**$ 48,907,496**	$ 45,743,761	$ 42,447,462
Liabilities			
Systemwide bonds payable	**$ 35,233,552**	$ 31,440,802	$ 25,693,876
Systemwide and other notes payable	**6,186,573**	6,123,570	8,803,180
Accrued interest payable	**142,782**	41,735	27,891
Accounts payable	**485,684**	528,778	430,504
Advanced conditional payments	**9,548**	10,991	10,601
Other liabilities	**264,206**	268,207	373,890
Total liabilities	**42,322,345**	38,414,083	35,339,942
Shareholders' Equity			
Perpetual preferred stock	—	32,500	49,250
Protected borrower equity	**445**	446	446
Capital stock and participation certificates	**191,247**	189,018	178,388
Additional paid-in-capital	**354,575**	87,363	82,573
Retained earnings			
Allocated	**2,398,494**	2,312,926	2,264,776
Unallocated	**4,884,484**	4,952,111	4,697,437
Accumulated other comprehensive loss	**(1,244,094)**	(244,686)	(165,350)
Total shareholders' equity	**6,585,151**	7,329,678	7,107,520
Total liabilities and shareholders' equity	**$ 48,907,496**	$ 45,743,761	$ 42,447,462

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the year ended December 31, 2022	2021	2020
Interest Income			
Investments	**$ 201,312**	$ 132,955	$ 160,823
Loans	**1,698,585**	1,399,131	1,446,870
Other	**5,031**	142	2,041
Total interest income	**1,904,928**	1,532,228	1,609,734
Interest Expense	**557,328**	187,955	359,100
Net interest income	**1,347,600**	1,344,273	1,250,634
(Reversal of) provision for allowance for loan losses	**(15,426)**	(3,553)	3,646
Net interest income after (reversal of) provision for allowance for loan losses	**1,363,026**	1,347,826	1,246,988
Noninterest Income			
Loan fees	**40,379**	52,979	41,402
Fees for financially related services	**21,280**	19,826	14,500
Net impairment losses on investments	**—**	—	(102)
Gains on investments, net	**—**	330	7,215
Gains (losses) on debt extinguishment	**56**	(9,204)	(65,475)
Gains on other transactions	**2,986**	11,392	20,651
Insurance premium refund	**—**	—	6,813
Patronage refunds from other Farm Credit institutions	**21,572**	15,211	13,561
Other noninterest income	**6,792**	7,417	8,552
Total noninterest income	**93,065**	97,951	47,117
Noninterest Expenses			
Salaries and employee benefits	**373,910**	354,054	338,414
Occupancy and equipment	**29,049**	27,365	27,808
Insurance Fund premiums	**67,093**	47,212	26,976
Purchased services	**74,212**	58,426	41,078
Data processing	**38,454**	31,506	24,149
Other operating expenses	**114,154**	113,530	103,105
(Gains) losses from other property owned	**(4,821)**	(300)	2,257
Total noninterest expenses	**692,051**	631,793	563,787
Income before income taxes	**764,040**	813,984	730,318
Provision for income taxes	**1,858**	1,724	1,033
Net income	**$ 762,182**	$ 812,260	$ 729,285
Other comprehensive (loss) income:			
Unrealized (losses) gains on investments	**(1,016,322)**	(168,540)	138,186
Change in value of cash flow hedges	**(201)**	(86)	(246)
Employee benefit plans adjustments	**17,115**	89,290	11,057
Other comprehensive (loss) income	**(999,408)**	(79,336)	148,997
Comprehensive (loss) income	**$ (237,226)**	$ 732,924	$ 878,282

DISTRICT ASSOCIATIONS

As of December 31, 2022

Associations		Direct Notes	% of Direct Note Total		Total Assets		Total Allowance and Capital	Total Regulatory Capital Ratio	Nonperforming Loans as a % of Total Loans	ROA
(dollars in thousands)										
AgCarolina	$	1,072,805	4.77 %	$	1,415,416	$	310,313	20.73 %	0.88 %	2.45 %
AgCredit		2,456,560	10.92		2,974,421		481,094	20.46	0.15	2.31
AgGeorgia		981,101	4.36		1,290,406		282,233	21.46	2.43	2.48
AgSouth		1,643,799	7.31		2,157,974		472,524	22.07	1.01	2.94
ArborOne		514,102	2.29		640,581		122,488	18.49	1.62	2.53
Cape Fear		925,881	4.12		1,196,142		240,529	19.35	0.83	3.08
Carolina		1,513,756	6.73		1,947,900		384,855	20.08	0.44	2.60
Central Florida		694,754	3.09		854,940		140,828	18.26	1.37	2.42
Central Kentucky		565,072	2.51		706,948		136,913	19.61	0.36	2.53
Colonial		574,936	2.56		795,139		201,162	23.73	0.18	2.58
First South		2,411,438	10.72		3,061,872		611,312	17.47	0.12	2.24
Florida		1,178,379	5.24		1,551,981		346,180	19.69	0.09	2.37
Horizon		4,910,198	21.83		6,209,030		1,170,802	16.63	1.08	2.64
Northwest Florida		264,071	1.17		361,099		94,109	24.97	0.36	2.08
Puerto Rico		122,638	0.55		185,920		61,655	33.08	4.88	3.41
River Valley		465,253	2.07		601,065		123,496	19.82	1.88	1.93
Southwest Georgia		585,138	2.60		722,794		124,872	16.36	1.59	2.60
Virginias		1,617,603	7.19		2,136,435		491,350	21.93	1.68	2.02

AgFirst Farm Credit Bank

AgFirst Farm Credit Bank
1901 Main Street
Columbia, SC 29201
803-799-5000
www.agfirst.com

AgFirst District Associations

AgCarolina Farm Credit, ACA**
636 Rock Spring Road
Greenville, NC 27834
800-951-3276
www.agcarolina.com

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

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

AgSouth Farm Credit, ACA
26 South Main Street
Statesboro, GA 30458
912-764-9091
www.agsouthfc.com

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

Carolina Farm Credit, ACA
146 Victory Lane
Statesville, NC 28625
704-873-0276
www.carolinafarmcredit.com

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2429 Members Way
Lexington, KY 40504
859-253-3249
www.agcreditonline.com

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7104 Mechanicsville Turnpike
Mechanicsville, VA 23111
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204 East Orange Street, Suite 200
Lakeland, FL 33801
863-682-4117
www.farmcreditcfl.com

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11903 Southern Boulevard Suite 200
West Palm Beach, FL 33411
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www.farmcreditfl.com

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5052 Highway 90 East
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www.farmcredit-fl.com

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106 Sangers Lane
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www.farmcreditofvirginias.com

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300 Winding Creek Blvd.
Mechanicsburg, PA 17050
888-339-3334
www.horizonfc.com

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213 Domenech Ave.
San Juan, PR 00918
787-753-0579
www.prfarmcredit.com

River Valley AgCredit, ACA
2731 Olivet Church Rd.
Paducah, KY 42001
270-554-2912
www.rivervalleyagcredit.com

Southwest Georgia Farm Credit, ACA
305 Colquitt Highway
Bainbridge, GA 39817
229-246-0384
www.swgafarmcredit.com

*AgChoice Farm Credit, ACA and MidAtlantic Farm Credit, ACA merged to become Horizon Farm Credit, ACA effective July 1, 2022
**AgCarolina Farm Credit, ACA and Cape Fear Farm Credit, ACA merged on January 1, 2023