AGFIRST FARM CREDIT BANK & DISTRICT ASSOCIATIONS

2023 SECOND QUARTER FINANCIAL INFORMATION

FARM CREDIT

AgFirst Farm Credit Bank and District Associations June 30, 2023 Financial Information

(unaudited)

INTRODUCTION AND DISTRICT OVERVIEW

The following commentary reviews the Combined Financial Statements of Condition and Results of Operations of AgFirst Farm Credit Bank (AgFirst or the Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the AgFirst District (District), for the three and six months ended June 30, 2023. AgFirst and the District Associations are part of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. System institutions are generally organized as cooperatives. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses. AgFirst and each District Association are individually regulated by the Farm Credit Administration (FCA).

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

As of June 30, 2023, the District consisted of the Bank and sixteen District Associations. See *Other Matters* section below for details of merger activity among Associations in the District. All sixteen 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 June 30, 2023, two other Farm Credit Banks (FCBs) and an Agricultural Credit Bank (ACB), through a number of associations, provided loans and related services to eligible borrowers primarily in the remaining portion of the United States. While owned by its related associations, each FCB manages and controls its own business activities and operations. The ACB is owned by its related associations as well as other agricultural and rural institutions, including agricultural cooperatives. Associations are not commonly owned or controlled and each manages and controls its own business activities and operations.

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

Financial Highlights

(dollars in thousands)	June 30, 2023	December 31, 2022
Total loans	**$ 38,903,839**	$ 38,103,069
Allowance for loan losses	**(169,545)**	(181,254)
Net loans	**38,734,294**	37,921,815
Total assets	**49,633,292**	48,907,496
Total shareholders' equity	**6,738,501**	6,585,151

	For the Six Months Ended June 30,	
	2023	**2022**
Net interest income	**$ 671,278**	$ 662,080
Provision for (reversal of) credit losses	**43,280**	(8,211)
Noninterest expense, net	**(330,293)**	(303,274)
Net income	**$ 297,705**	$ 367,017
Net interest income as a percentage of average earning assets	**2.80 %**	2.95 %
Net (charge-offs) recoveries to average loans	**(0.07)%**	0.00 %
Return on average assets	**1.22 %**	1.60 %
Return on average shareholders' equity	**8.80 %**	10.18 %
Operating expense as a percentage of net interest income and noninterest income	**51.62 %**	48.62 %
Average loans	**$ 38,608,447**	$ 35,601,644
Average earning assets	**48,414,169**	45,245,002
Average assets	**49,328,834**	46,184,765

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

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2023, was $297.7 million compared to $367.0 million for the corresponding period in 2022, a decrease of $69.3 million or 18.89 percent. Net income for the three months ended June 30, 2023, was $161.2 million compared to $170.3 million for the three months ended June 30, 2022, a decrease of $9.2 million, or 5.38 percent. See below for further discussion of the change in net income by major components.

Net Interest Income

Net interest income increased $1.6 million, or 0.47 percent, to $333.2 million, for the three months ended June 30, 2023, compared to the same period in the prior year. For the six months ended June 30, 2023, net interest income increased $9.2 million, or 1.39 percent to $671.3 million compared to the same period in the prior year. The net interest margin, which is net interest income as a percentage of average earning assets, was 2.75 percent and 2.80 percent, a decrease of 16 basis points and 15 basis points for the three and six months ended June 30, 2023, respectively, compared to the same periods in the prior year.

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

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

The effects of changes in volume and interest rates on net interest income for the three and six months ended June 30, 2023, as compared with the corresponding periods in 2022, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

	For the Three Months Ended June 30, 2023 vs. June 30, 2022			For the Six Months Ended June 30, 2023 vs. June 30, 2022		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
(dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	$ 41,323	$ 155,989	$ 197,312	$ 87,744	$ 292,198	$ 379,942
Investments & Cash Equivalents	21	37,952	37,973	(1,699)	77,438	75,739
Other	2,921	1,201	4,122	6,021	2,379	8,400
Total Interest Income	44,265	195,142	239,407	92,066	372,015	464,081
Interest Expense:						
Interest-Bearing Liabilities	25,365	212,480	237,845	52,998	401,885	454,883
Changes in Net Interest Income	$ 18,900	$ (17,338)	$ 1,562	$ 39,068	$ (29,870)	$ 9,198

Provision for Credit Losses

AgFirst and the District Associations measure risks inherent in their individual loan portfolios on an ongoing basis and, as necessary, recognize provision for credit loss expense so that appropriate allowances for credit losses (ACL) are maintained. Provision for credit losses, which includes the provision for loan loss and the provision for unfunded commitments, was a provision expense of $6.1 million and $43.3 million for the three and six months ended June 30, 2023, respectively, compared to a provision reversal of $1.1 million and $8.2 million for the corresponding periods in 2022. The impact of the requirements to estimate losses over the contractual life of the loan as part of the adoption of Accounting Standards Update - Financial Instruments - Credit Losses, commonly referred to as the Current Expected Credit Loss (CECL) standard, can lead to larger volatility in provision expense when compared to the previous incurred loss model.

For the three and six months ended June 30, 2023, the provision for loan losses included provision expense for specific reserves of $3.8 million and $36.5 million, respectively, and net provision expense for general reserves of $1.1 million and $6.4 million, respectively. Total provision expense for the three months ended June 30, 2023, primarily related to borrowers in the rural home loans ($4.8 million reversal), tree fruits and nuts ($4.0 million expense), field crops ($2.9 million expense), poultry ($1.4 million expense), and cattle ($1.3 million expense) segments. Total provision expense for the six months ended June 30, 2023, primarily related to borrowers in the tree fruits and nuts ($23.0 million expense), field crops ($9.8 million expense), forestry ($8.0 million expense), and swine ($3.0 million expense) segments.

For the three and six months ended June 30, 2022, the provision for loan losses included provision reversal for specific reserves of $1.9 million and $1.4 million, respectively, and net provision expense for general reserves of $765 thousand and net provision reversal of $6.8 million, respectively. Total provision reversal for the three months ended June 30, 2022, primarily related to borrowers in the poultry ($1.9 million reversal), fruits/vegetables ($1.1 million reversal), grain ($1.4 million expense), and dairy ($1.1 million expense) segments. Total provision reversal for the six months ended June 30, 2022, primarily related to borrowers in the poultry ($3.6 million reversal), field crops ($1.9 million reversal), fruits/ vegetables ($1.2 million reversal), corn ($1.1 million reversal), and rural home loans ($1.1 million expense) segments.

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

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the Three Months Ended June 30,**			**For the Six Months Ended June 30,**		
(dollars in thousands)	**2023**	**2022**	**Increase/ Decrease**	**2023**	**2022**	**Increase/ Decrease**
Loan fees	$ 9,689	$ 11,242	$ (1,553)	$ 19,781	$ 21,379	$ (1,598)
Fees for financially related services	5,037	4,618	419	8,620	7,196	1,424
(Losses) gains on debt extinguishment	(2,448)	56	(2,504)	(3,711)	56	(3,767)
Gains (losses) on other transactions	1,216	(3,363)	4,579	3,964	(404)	4,368
Patronage refunds from other Farm Credit institutions	226	2,163	(1,937)	2,954	6,374	(3,420)
Other noninterest income	1,581	1,217	364	3,268	3,635	(367)
Total noninterest income	$ 15,301	$ 15,933	$ (632)	$ 34,876	$ 38,236	$ (3,360)

Noninterest income decreased $632 thousand and $3.4 million for the three and six months ended June 30, 2023 compared to the corresponding periods in 2022. Significant line-item dollar variances greater than $2.0 million are discussed below.

Losses on debt extinguishment were $2.4 million and $3.7 million for the three and six months ended June 30, 2023, compared to $56 thousand the same periods in 2022. Debt issuance expense is amortized into interest expense over the contractual life of the underlying debt security. Debt is called to take advantage of favorable market interest rate changes. When debt securities are called prior to maturity, any unamortized issuance cost is expensed through gains (losses) on debt extinguishment. The amount of issuance cost expensed when a bond is called is dependent upon both the size and remaining maturity of the bond when called. Losses on called debt are more than offset by interest expense savings realized over the life of the replacement debt. There were $1.0 billion and $1.6 billion call options exercised on bonds for the three and six months ended June 30, 2023, respectively. There were no call options exercised in 2022 due to the rising interest rate environment; however, the Bank repurchased and subsequently cancelled one discount note that resulted in $56 thousand in gains during 2022.

Gains (losses) on other transactions increased $4.6 million and $4.4 million for the three and six months ended June 30, 2023, respectively, compared to the corresponding periods in 2022 primarily due to increases of $2.6 million and $3.0 million in the market value of certain nonqualified retirement plan assets held in other assets on the Balance Sheets.

Patronage refunds from other Farm Credit institutions decreased by $3.4 million for the six months ended June 30, 2023 compared to the corresponding period in 2022 primarily due to lower refunds received from FCS Captive Insurance of $3.0 million.

Noninterest Expenses

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses	**For the Three Months Ended June 30,**			**For the Six Months Ended June 30,**		
(dollars in thousands)	**2023**	**2022**	**Increase/ Decrease**	**2023**	**2022**	**Increase/ Decrease**
Salaries and employee benefits	$ 95,074	$ 93,764	$ 1,310	$ 194,233	$ 187,344	$ 6,889
Occupancy and equipment	7,092	6,762	330	14,374	13,772	602
Insurance fund premiums	16,587	19,672	(3,085)	32,701	32,225	476
Purchased services	19,420	18,926	494	36,974	35,829	1,145
Data processing	12,604	9,231	3,373	24,132	17,619	6,513
Other operating expenses	30,035	29,127	908	62,092	53,696	8,396
Losses from other property owned	(94)	(4)	(90)	(342)	(79)	(263)
Total noninterest expenses	$ 180,718	$ 177,478	$ 3,240	$ 364,164	$ 340,406	$ 23,758

Noninterest expenses increased $3.2 million and $23.8 million for the three and six months ended June 30, 2023 compared to the corresponding periods in 2022. Significant line-item dollar variances greater than $2.0 million are discussed below.

Salaries and employee benefits expenses increased $6.9 million, or 3.68 percent, for the six months ended June 30, 2023. The increase was primarily due to normal salary administration at the Bank and District Associations.

Insurance fund premiums decreased $3.1 million for the three months ended June 30, 2023 when compared to the same period in the prior year. In the second quarter of 2022, there was a retroactive increase in premium assessment rate from 16 basis points to 20 basis points for the first half of 2022 that resulted in higher second quarter 2022 expenses.

Data processing expenses increased $3.4 million and $6.5 million for the three and six months ended June 30, 2023, respectively, compared to the same periods in 2022 primarily as a result of higher software and hardware depreciation and maintenance costs associated with new systems purchased as part of the technology modernization initiatives (primarily loan accounting and loan origination systems, and data management enhancements).

Other operating expenses increased $8.4 million for the six months ended June 30, 2023, primarily due to an increase in pension expense of $7.7 million. The increase in pension expense is primarily the result of an increase in the discount rates used to calculate pension liabilities. In addition to the increase in pension expense, a special termination benefit from an Association merger resulted in $1.2 million of expenses in 2023.

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)	June 30, 2023		December 31, 2022		June 30, 2022	
Real estate mortgage	$ 19,540,532	50.23 %	$ 19,567,465	51.35 %	$ 19,283,849	52.96 %
Production and intermediate-term	7,029,539	18.07	7,087,492	18.60	6,576,766	18.06
Agribusiness:						
Loans to cooperatives	775,945	1.99	763,647	2.01	940,077	2.59
Processing and marketing	3,511,582	9.03	3,387,983	8.89	3,093,027	8.49
Farm-related business	549,906	1.41	581,143	1.53	527,673	1.45
Rural infrastructure:						
Power	1,570,060	4.04	1,129,848	2.97	873,511	2.40
Communication	1,217,616	3.13	1,051,506	2.76	928,509	2.55
Water/Waste disposal	259,276	0.67	203,724	0.53	64,859	0.18
Rural residential real estate	3,779,201	9.71	3,718,275	9.76	3,584,571	9.84
Other:						
International	225,739	0.58	214,546	0.56	154,157	0.42
Lease receivables	12,702	0.03	12,979	0.03	15,341	0.04
Loans to other financing institutions (OFIs)	168,045	0.43	166,260	0.44	171,708	0.47
Other (including mission related)	263,696	0.68	218,201	0.57	199,608	0.55
Total	$ 38,903,839	100.00 %	$ 38,103,069	100.00 %	$36,413,656	100.00 %

Total loans outstanding were $38.9 billion at June 30, 2023, an increase of $800.8 million, or 2.10 percent, compared to December 31, 2022 and an increase of $2.5 billion, or 6.84 percent, since June 30, 2022.

Compared to year-end 2022, the increase in loans was primarily in the utilities, forestry, and processing segments. Compared to June 30, 2022, the year-over-year increase in loan volume was primarily in the utilities, forestry, processing, and rural home loan segments. Growth in both periods came from a combination of factors including new client acquisition, an increase in transactions due to government initiatives to expand rural infrastructure, borrower liquidity needs due to commodity price escalation, and merger and acquisition activity. Growth for the remainder of the year may be challenged due to market conditions.

Credit Quality

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

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

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

District Credit Quality by Origination Year

(in thousands)

Balance as of June 30, 2023	Acceptable	OAEM	Substandard	Doubtful	Loss	Current Period Gross Writeoffs
2023	$ 3,121,736	$ 38,536	$ 22,853	$ —	$ —	$ —
2022	7,383,138	56,192	54,129	—	—	8,118
2021	6,642,620	70,844	45,850	—	—	197
2020	4,507,257	56,016	77,463	36	246	72
2019	2,607,268	36,062	72,170	—	2	176
Prior	8,490,383	159,503	131,516	68	5	376
Revolving loans	5,121,533	142,107	66,301	—	5	5,729
Total	$ 37,873,935	$ 559,260	$ 470,282	$ 104	$ 258	$ 14,668
Total as of December 31, 2022*	$ 37,373,882	$ 529,257	$ 465,550	$ 63	$ —	$ 5,700

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

District credit quality has declined slightly in 2023, primarily as a result of a slight decline in the credit quality within the syndicated loan portfolio due to isolated clients impacted by current market conditions. District credit may be impacted in future quarters as a result of potential changes in government support for agricultural sectors, inflationary input cost pressures, rising interest rates, and unforeseen impacts from geopolitical, trade, supply chain, weather, or animal or human related health events.

Nonaccrual Loans

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

(dollars in thousands)	June 30, 2023	December 31, 2022
Nonaccrual loans:		
Real estate mortgage	$ 76,480	$ 77,412
Production and intermediate-term	100,690	68,326
Agribusiness	7,905	6,779
Rural infrastructure	2,998	2,966
Rural residential real estate	20,176	19,200
Other	77	255
Total	$ 208,326	$ 174,938

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at June 30, 2023 were $208.3 million compared to $174.9 million at December 31, 2022. Nonaccrual loans increased primarily as the result of a single nonaccrual relationship in the tree fruits and nuts segment with an outstanding balance of $57.1 million as of June 30, 2023. Nonaccrual loans were 0.54 percent of total loans outstanding at June 30, 2023, compared to 0.46 percent at December 31, 2022.

	Nonaccrual by Eligibility			
	June 30, 2023		December 31, 2022	
	Total Amount	% of Total	Total Amount	% of Total
Tree Fruits and Nuts	$ 69,876	33.54 %	$ 13,580	7.76 %
Field Crops	28,599	13.73 %	49,393	28.23 %
Rural Home Loans	20,322	9.75 %	19,239	11.00 %
Forestry	14,750	7.08 %	11,180	6.39 %
Poultry	14,491	6.96 %	16,891	9.66 %
Grains	13,865	6.66 %	15,442	8.83 %
Cattle	11,078	5.32 %	11,115	6.35 %
Other	35,345	16.96 %	38,098	21.78 %
Total	$ 208,326	100.00 %	$ 174,938	100.00 %

Aging Analysis of Loans

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

	June 30, 2023					
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 69,512	$ 35,786	$ 105,298	$ 19,435,234	$ 19,540,532	$ 360
Production and intermediate-term	31,794	27,255	59,049	6,970,490	7,029,539	131
Agribusiness	3,522	4,420	7,942	4,829,491	4,837,433	—
Rural infrastructure	—	—	—	3,046,952	3,046,952	—
Rural residential real estate	12,968	8,059	21,027	3,758,174	3,779,201	—
Other	8,807	9,131	17,938	652,244	670,182	9,101
Total	$ 126,603	$ 84,651	$ 211,254	$ 38,692,585	$ 38,903,839	$ 9,592

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

	December 31, 2022					
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 70,488	$ 34,242	$ 104,730	$ 19,615,099	$ 19,719,829	$ 1,144
Production and intermediate-term	31,708	25,075	56,783	7,105,705	7,162,488	38
Agribusiness	9,060	13,861	22,921	4,730,128	4,753,049	10,280
Rural infrastructure	—	—	—	2,390,356	2,390,356	—
Rural residential real estate	45,923	10,730	56,653	3,670,693	3,727,346	1,587
Other	10,272	1,251	11,523	604,161	615,684	1,186
Total	$ 167,451	$ 85,159	$ 252,610	$ 38,116,142	$ 38,368,752	$ 14,235

Allowance for Credit Losses

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

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

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

(dollars in thousands)	**Real Estate Mortgage**	**Production and Intermediate -term**	**Agribusiness**	**Rural Infrastructure**	**Rural Residential Real Estate**	**Other**	**Total**
Activity related to allowance for credit losses:							
Balance at March 31, 2023	$ 68,265	$ 54,815	$ 16,873	$ 4,828	$ 27,542	$ 448	$ 172,771
Charge-offs	(75)	(555)	—	—	(117)	—	(747)
Recoveries	368	420	167	41	144	6	1,146
Provision for (reversal of) loan losses	1,467	7,338	991	457	(5,359)	118	5,012
Merger adjustment	(3,947)	(3,887)	(667)	(10)	(118)	(8)	(8,637)
Balance at June 30, 2023	$ 66,078	$ 58,131	$ 17,364	$ 5,316	$ 22,092	$ 564	$ 169,545
Allowance for unfunded commitments:							
Balance at March 31, 2023	$ 1,198	$ 3,664	$ 4,489	$ 458	$ 37	$ 84	$ 9,930
Provision for (reversal of) unfunded commitments	845	401	523	20	62	18	1,869
Merger adjustment	$ (434)	$ (204)	$ (122)	$ —	$ (5)	$ (6)	$ (771)
Balance at June 30, 2023	$ 1,609	$ 3,861	$ 4,890	$ 478	$ 94	$ 96	$ 11,028
Activity related to allowance for credit losses:							
Balance at December 31, 2022	$ 82,018	$ 65,472	$ 20,146	$ 3,875	$ 8,824	$ 919	$ 181,254
Cumulative effect of change in accounting principle	(14,693)	(23,270)	(1,246)	(758)	12,605	(476)	(27,838)
Charge-offs	(184)	(14,254)	(13)	—	(217)	—	(14,668)
Recoveries	543	1,285	172	41	166	6	2,213
Provision for (reversal of) loan losses	6,227	33,850	(604)	2,232	860	304	42,869
Merger adjustment	(7,833)	(4,952)	(1,091)	(74)	(146)	(189)	(14,285)
Balance at June 30, 2023	$ 66,078	$ 58,131	$ 17,364	$ 5,316	$ 22,092	$ 564	$ 169,545
Allowance for unfunded commitments:							
Balance at December 31, 2022	$ 189	$ 2,747	$ 2,727	$ 78	$ 15	$ 48	$ 5,804
Cumulative effect of change in accounting principle	565	791	2,936	463	22	37	4,814
Provision for (reversal of) unfunded commitments	1,289	527	(651)	(63)	62	17	1,181
Merger adjustment	(434)	(204)	(122)	—	(5)	(6)	(771)
Balance at June 30, 2023	$ 1,609	$ 3,861	$ 4,890	$ 478	$ 94	$ 96	$ 11,028
Activity related to allowance for loan losses:							
Balance at March 31, 2022	$ 98,220	$ 72,097	$ 19,695	$ 5,200	$ 8,672	$ 821	$ 204,705
Charge-offs	(132)	(643)	(110)	—	(111)	—	(996)
Recoveries	688	576	183	—	240	—	1,687
Provision for (reversal of) loan losses	(2,691)	(323)	1,272	506	66	72	(1,098)
Balance at June 30, 2022	$ 96,085	$ 71,707	$ 21,040	$ 5,706	$ 8,867	$ 893	$ 204,298
Balance at December 31, 2021	$ 98,823	$ 79,314	$ 19,662	$ 5,170	$ 8,341	$ 906	$ 212,216
Charge-offs	(1,041)	(952)	(121)	—	(929)	—	(3,043)
Recoveries	1,527	1,254	198	—	357	—	3,336
Provision for (reversal of) loan losses	(3,224)	(7,909)	1,301	536	1,098	(13)	(8,211)
Balance at June 30, 2022	$ 96,085	$ 71,707	$ 21,040	$ 5,706	$ 8,867	$ 893	$ 204,298

The allowance for loan losses was $169.5 million at June 30, 2023, as compared with $181.3 million at December 31, 2022, a decrease of $11.7 million primarily due to the adoption of CECL on January 1, 2023 discussed above. Subsequent to January 1, 2023, the allowance for loan losses increased by $16.1 million. The increase subsequent to the adoption of CECL was primarily the result of $42.9 million of provision expense, partially offset by $14.7 million of charge-offs and a reduction in overall allowance of $14.3 million as the result of Association mergers during 2023.

Allowance for Loan Losses by Eligibility

	June 30, 2023		December 31, 2022	
	Total Amount	**% of Total**	**Total Amount**	**% of Total**
Tree Fruits and Nuts	$ 30,468	17.97 %	$ 8,683	4.79 %
Rural Home Loans	22,897	13.50 %	8,765	4.84 %
Poultry	22,511	11.37 %	22,707	12.53 %
Forestry	18,977	11.19 %	19,253	10.62 %
Field Crops	16,248	9.58 %	26,372	14.55 %
Other	58,444	36.39 %	95,474	52.67 %
Total	$ 169,545	100.00 %	$ 181,254	100.00 %

Charge-offs during the first six months of 2023 were related primarily to borrowers in the field crops (93.49 percent of the total) and there were no significant recoveries in an individual industry segment. See *Provision for Credit Losses* section above for additional details regarding loan loss provision expense and reversals. The allowance at June 30, 2023, included specific reserves of $40.8 million (24.04 percent of the total) and $128.7 million (75.96 percent) of general reserves. The allowance for loan losses was 0.44 percent, 0.48 percent, and 0.56 percent of total loans outstanding at June 30, 2023, December 31, 2022, and June 30, 2022, respectively.

INVESTMENTS

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

The Bank's investments are primarily classified as available-for-sale investments. Refer to the Bank's Second Quarter 2023 Report for additional information related to investments. District Associations also have regulatory authority to enter into certain government guaranteed investments, generally mortgage-backed or asset-backed securities. There was no allowance for credit loss on District investments at June 30, 2023. The following tables summarize the District's investments:

	June 30, 2023			
(dollars in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
District Bank investments	$ 9,639,793	$ 2,074	$ (996,735)	$ 8,645,132
District Association investments	75,123	441	(2,009)	73,555
Total District investments	$ 9,714,916	$ 2,515	$ (998,744)	$ 8,718,687

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

At June 30, 2023, there were $994.3 million in net unrealized losses in available-for-sale investments, compared to $994.2 million at December 31, 2022. The net unrealized losses are the result of the significant increase in interest rates during 2022 which decreased the fair value of existing available-for-sale fixed-rate investment securities. It is anticipated that these securities will be held until maturity with no loss realized.

CAPITAL

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

Total shareholders' equity increased $153.4 million, or 2.33 percent, from December 31, 2022, to $6.7 billion at June 30, 2023. This increase is primarily attributed to net income of $297.7 million and $23.0 million in cumulative effect adjustment due to the adoption of CECL, and capital stock issued of $20.9 million. These increases were partially offset by cash patronage of $44.2 million, $30.8 million in retained earnings retired, and capital stock retired of $30.2 million.

In addition to the changes described above, the AgCarolina Farm Credit merger effective on January 1, 2023 reduced equity by $40.7 million due to a decrease in unallocated retained earnings of $106.2 million and an increase in additional paid-in capital of $65.5 million. The AgSouth Farm Credit merger effective on April 1, 2023 also reduced equity by $47.7 million due to a decrease in unallocated retained earnings of $143.4 million and an increase in additional paid-in capital of $95.7 million.

Accumulated Other Comprehensive Income (Loss)

(dollars in thousands)	June 30, 2023	December 31, 2022
Unrealized gain (loss) on investment securities	$ (994,185)	$ (994,070)
Derivatives and hedging activity	—	—
Employee benefit plans activity	(236,555)	(250,024)
Total accumulated other comprehensive income (loss)	$ (1,230,740)	$ (1,244,094)

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

Regulatory Capital Requirements and Ratios

As of June 30, 2023	Primary Components of Numerator	Regulatory Minimums	Minimum with Buffer	Bank	District Associations
Risk adjusted:					
Common equity tier 1 capital ratio	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	4.50 %	7.00 %	14.11%	16.10% - 32.76%
Tier 1 capital ratio	CET1 capital, non-cumulative perpetual preferred stock	6.00 %	8.50 %	14.11%	16.10% - 32.76%
Total capital ratio	Tier 1 capital, allowance for loan losses[2], common cooperative equities[3] and term preferred stock and subordinated debt[4]	8.00 %	10.50 %	14.42%	16.38% - 34.02%
Permanent capital ratio	Retained earnings, common stock, non-cumulative perpetual preferred stock, and subordinated debt, subject to certain limits	7.00 %	7.00 %	14.15%	16.14% - 33.18%
Non-risk adjusted:					
Tier 1 leverage ratio*	Tier 1 capital	4.00 %	5.00 %	5.75%	14.03% - 32.59%
URE and UREE component	URE and URE equivalents	1.50 %	1.50 %	4.76%	11.33% - 32.31%

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

REGULATORY MATTERS

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

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

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

OTHER MATTERS

Direct Notes

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

At June 30, 2023, one Association (0.53 percent of total Direct Note), was operating under a special credit agreement with the Bank pursuant to the GFA and classified as Substandard.

Association Merger Activity

Following approval by AgFirst, the FCA, and shareholders, effective January 1, 2023, Cape Fear Farm Credit, ACA merged with and into AgCarolina Farm Credit, ACA. Combined total assets for the merged Association were $2.6 billion as of June 30, 2023.

Following approval by AgFirst, the FCA, and shareholders, effective April 1, 2023, Carolina Farm Credit, ACA merged with and into AgSouth Farm Credit, ACA. Combined total assets for the merged entity were $4.0 billion as of June 30, 2023.

LIBOR Transition

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

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

The Bank and Associations had 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. To the extent necessary, substantially all financial instruments that reference LIBOR have been amended to incorporate adequate fallbacks, including, where appropriate, the Secured Overnight Finance Rate (SOFR)-based fallbacks recommended by the Alternative Reference Rates Committee (ARRC).

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

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

	June 30, 2023			
(dollars in millions)	**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	$ 704	$ 704	8.1%	—%
Loans	444	444	1.1%	—%
Total Assets	$ 1,148	$ 1,148	2.3%	—%
Systemwide debt securities	$ —	$ —	N/A	N/A
Total Liabilities and Equity	$ —	$ —	N/A	N/A

Balance Sheets

(unaudited)

(dollars in thousands)	June 30, 2023	December 31, 2022
Assets		
Cash	**$ 791,141**	$ 750,899
Cash equivalents	**550,000**	350,000
Investments in debt securities:		
Available-for-sale (amortized cost of $9,627,289 and $10,055,933, respectively)	**8,632,991**	9,061,750
Held-to-maturity (fair value of $85,696 and $37,522, respectively)	**87,627**	39,666
Total investments in debt securities	**8,720,618**	9,101,416
Loans	**38,903,839**	38,103,069
Allowance for loan losses	**(169,545)**	(181,254)
Net loans	**38,734,294**	37,921,815
Loans held for sale	**1,632**	1,720
Accrued interest receivable	**329,826**	296,439
Accounts receivable	**44,590**	53,540
Equity investments in other Farm Credit institutions	**61,437**	62,823
Other Investments	**5,081**	3,902
Premises and equipment, net	**321,812**	294,045
Other property owned	**2,034**	4,310
Other assets	**70,827**	66,587
Total assets	**$ 49,633,292**	$ 48,907,496
Liabilities		
Systemwide bonds payable	**$ 37,233,017**	$ 35,233,552
Systemwide notes payable	**5,083,438**	6,186,573
Accrued interest payable	**205,930**	142,782
Accounts payable	**109,473**	485,684
Advanced conditional payments	**24,653**	9,548
Other liabilities	**238,280**	264,206
Total liabilities	**42,894,791**	42,322,345
Shareholders' Equity		
Protected borrower equity	**445**	445
Capital stock and participation certificates	**182,190**	191,247
Additional paid-in-capital	**515,792**	354,575
Retained earnings		
Allocated	**2,381,717**	2,398,494
Unallocated	**4,889,097**	4,884,484
Accumulated other comprehensive loss	**(1,230,740)**	(1,244,094)
Total shareholders' equity	**6,738,501**	6,585,151
Total liabilities and equity	**$ 49,633,292**	$ 48,907,496

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended June 30, 2023	For the Three Months Ended June 30, 2022	For the Six Months Ended June 30, 2023	For the Six Months Ended June 30, 2022
Interest Income				
Investments	**$ 80,426**	$ 42,453	**$ 155,056**	$ 79,317
Loans	**585,613**	388,301	**1,126,671**	746,729
Other	**4,353**	231	**8,669**	269
Total interest income	**670,392**	430,985	**1,290,396**	826,315
Interest Expense	**337,228**	99,383	**619,118**	164,235
Net interest income	**333,164**	331,602	**671,278**	662,080
Provision for (reversal of) credit losses	**6,111**	(1,098)	**43,280**	(8,211)
Net interest income after provision for (reversal of) credit losses	**327,053**	332,700	**627,998**	670,291
Noninterest Income				
Loan fees	**9,689**	11,242	**19,781**	21,379
Fees for financially related services	**5,037**	4,618	**8,620**	7,196
(Losses) gains on debt extinguishment	**(2,448)**	56	**(3,711)**	56
Gains (losses) on other transactions	**1,216**	(3,363)	**3,964**	(404)
Patronage refunds from other Farm Credit institutions	**226**	2,163	**2,954**	6,374
Other noninterest income	**1,581**	1,217	**3,268**	3,635
Total noninterest income	**15,301**	15,933	**34,876**	38,236
Noninterest Expenses				
Salaries and employee benefits	**95,074**	93,764	**194,233**	187,344
Occupancy and equipment	**7,092**	6,762	**14,374**	13,772
Insurance Fund premiums	**16,587**	19,672	**32,701**	32,225
Purchased services	**19,420**	18,926	**36,974**	35,829
Data processing	**12,604**	9,231	**24,132**	17,619
Other operating expenses	**30,035**	29,127	**62,092**	53,696
Losses from other property owned	**(94)**	(4)	**(342)**	(79)
Total noninterest expenses	**180,718**	177,478	**364,164**	340,406
Income before income taxes	**161,636**	171,155	**298,710**	368,121
Provision for income taxes	**466**	830	**1,005**	1,104
Net income	**$ 161,170**	$ 170,325	**$ 297,705**	$ 367,017
Other comprehensive income (loss):				
Unrealized losses on investments	**$ (113,764)**	$ (271,059)	**$ (119)**	$ (652,448)
Change in value of cash flow hedges	**—**	(10)	**—**	(19)
Employee benefit plans adjustments	**6,372**	5,804	**13,473**	11,578
Other comprehensive income (loss)	**(107,392)**	(265,265)	**13,354**	(640,889)
Comprehensive income (loss)	**$ 53,778**	$ (94,940)	**$ 311,059**	$ (273,872)

DISTRICT ASSOCIATIONS

As of June 30, 2023

Associations	Direct Notes	% of Direct Note Total	Total Assets	Total Allowance and Capital	Total Regulatory Capital Ratio	Nonperforming Loans as a % of Total Loans	ROA
(dollars in thousands)							
Horizon Farm Credit, ACA	$ 5,155,610	22.34 %	$ 6,431,269	$ 1,201,500	16.38 %	0.53 %	2.23 %
AgSouth Farm Credit, ACA	3,155,084	13.67	4,010,723	816,112	19.45	0.37	1.80
Ag Credit, ACA	2,520,233	10.92	3,047,571	509,210	20.09	0.51	2.08
First South Farm Credit, ACA	2,435,719	10.55	3,095,427	636,047	17.97	0.38	1.90
AgCarolina Farm Credit, ACA	2,054,466	8.90	2,594,747	530,791	18.26	0.56	2.00
Farm Credit of the Virginias, ACA	1,664,287	7.21	2,178,429	503,795	21.38	0.92	1.67
Farm Credit of Florida, ACA	1,176,878	5.10	1,547,964	362,663	19.47	0.86	1.75
AgGeorgia Farm Credit, ACA	1,048,579	4.54	1,359,469	287,421	20.72	0.24	2.01
Farm Credit of Central Florida, ACA	745,926	3.23	900,993	142,933	16.85	0.83	0.92
Southwest Georgia Farm Credit, ACA	589,738	2.55	723,005	132,264	17.22	1.33	1.84
Central Kentucky, ACA	580,289	2.51	727,391	144,185	20.00	0.13	1.88
Colonial Farm Credit, ACA	572,864	2.48	786,390	207,917	23.84	0.14	2.05
ArborOne, ACA	523,750	2.27	648,122	129,763	18.71	0.87	2.12
River Valley AgCredit, ACA	467,038	2.02	605,955	128,118	19.80	0.92	1.60
Farm Credit of Northwest Florida, ACA	276,083	1.20	375,813	97,529	24.57	0.02	1.80
Puerto Rico Farm Credit, ACA	116,387	0.50	177,952	63,125	34.02	5.92	(1.47)

AgFirst Farm Credit Bank

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803-799-5000
www.agfirst.com

AgFirst District Associations

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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
146 Victory Lane
Statesville, NC 28625
704-873-0276
www.agsouthfc.com

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

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

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