AgCarolina Farm Credit, ACA

THIRD QUARTER 2023

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2023 quarterly report of AgCarolina Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

S. Stuart Pierce, Jr.
Chairman of the Board

Evan Kleinhans
Chief Executive Officer

Charles M. Hester
Chief Financial Officer

November 8, 2023

AgCarolina Farm Credit, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2023. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of September 30, 2023, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2023.

Evan Kleinhans
Chief Executive Officer

Charles M. Hester
Chief Financial Officer

November 8, 2023

AgCarolina Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgCarolina Farm Credit, ACA (Association) for the period ended September 30, 2023. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2022 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

MERGER ACTIVITY

Following approval by AgFirst Farm Credit Bank (Bank), the Farm Credit Administration (FCA), and shareholders, effective January 1, 2023, Cape Fear Farm Credit, ACA, merged with and into AgCarolina Farm Credit, ACA. AgCarolina Farm Credit, ACA retained its name and is headquarted in Greenville, NC.

The effects of the merger are included in our financial position, results of operations and related metrics beginning January 1, 2023. Prior year results have not been restated to reflect the impact of the merger. Results of operations and equity reflect the results of legacy AgCarolina Farm Credit, ACA, prior to January 1, 2023, and the merged Association after January 1, 2023. Upon closing the merger, loans increased $1.1 billion, liabilities increased $928.9 million and equity increased $194.2 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations. See further information regarding the merger within *Note 9 – Merger Activity.*

The merger was accounted for under the acquisition method of accounting guidance in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification 805 Business Combinations (ASC 805). As the accounting acquirer, AgCarolina Farm Credit, ACA recognized the identifiable assets acquired and liabilities assumed in the merger as of the effective date at their respective fair values. The fair value of the net identifiable assets was substantially equal to the fair value of the equity interest exchanged in the merger. As a result, no goodwill was recorded.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for the financing of short-term and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio consists of agricultural commodities, including swine, poultry, tobacco, forestry, and row crop operations. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory. Risk exposure is reduced by many of the borrowers in the region having diversified farming operations as well as varying farm sizes. This factor, along with the opportunities for non-farm income, lessens the level of dependency on any single given commodity. Concentration risk is further mitigated by a portfolio of participation loans purchased or originated and sold. The Association also mitigates concentration risk through the use of USDA and Farmer Mac guarantees.

Gross loan volume at September 30, 2023 totaled $2,572,529 as compared to $1,362,645 at December 31, 2022, an increase of $1,209,884 or 88.79 percent during the nine months. The increase was primarily due to the merger with Cape Fear Farm Credit. The Association's allowace for loan losses of $14,583 increased $5,549 or 61.43 percent during the nine month period resulting in net loans (loans less allowance for loan losses) of $2,557,946 and $1,353,611 at September 30, 2023 and December 31, 2022, respectively. Net loans accounted for 95.67 percent of total assets at September 30, 2023, as compared to 95.63 percent at December 31, 2022.

There is an inherent risk in the extension of any type of credit and, accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio. The overall credit quality of the Association's loan portfolio continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased $3,637 or 40.68 percent from $8,940 at December 31, 2022 to $12,577 at September 30, 2023. The increase in nonaccrual volume was primarily attributed to the merger with Cape Fear Farm Credit and the transfer of several larger sized loans to nonaccrual status during the nine month period.

Other investments consist of Rural America Bonds which come under the Farm Credit Administration's Mission Related Investments. The objective of Rural America Bonds is to help meet the growing and diverse financing needs of agricultural enterprises, agribusiness, and rural communities by providing a flexible flow of money to rural areas through bond financing. At September 30, 2023, the Association had $2,432 in Rural America Bonds as compared to $0 at December 31, 2022. They were all classified as investment securities and acquired through the merger with Cape Fear Farm Credit.

Effective December 31, 2016, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investments through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

Other property owned (OPO) was $0 as of September 30, 2023, which was consistent when compared to the balance at December 31, 2022.

RESULTS OF OPERATIONS

For the three months ended September 30, 2023

Net income for the three months ended September 30, 2023 totaled $15,509 as compared to $6,141 for the same period in 2022, an increase of $9,368 or 152.55 percent. The change in net income was primarily driven by the favorable impact of the merger on net interest income due to increased loan volume, partially offset by higher operating expenses.

For the three months ended September 30, 2023, net interest income increased $12,162 or 133.52 percent as compared to the same period in 2022. The change in net interest income was primarily driven by earnings on acquired loans and investment securities from the merger with Cape Fear Farm Credit. Interest income on loans increased by $27,615 and interest income from investment securities increased by $36. These increases were offset by higher interest expense which increased by $15,489 compared to the same period last year.

There was a provision for credit losses of $817 for the three months ended September 30, 2023 as compared to a reversal of credit losses of $444 at September 30, 2022. The change in provision was primarily driven by increases in both the general and specific reserves.

Noninterest income for the three months ended September 30, 2023 totaled $6,456 as compared to $2,403 for the same period in 2022, an increase of $4,053 or 168.66 percent. Items contributing to the increase included a $3,027 increase in patronage refunds from other Farm Credit institutions, a $628 increase in gains on other transactions, a $410 increase in loan fee income, and a $3 increase in fees for financially related services. The overall increase was offset by a $15 decrease in gains on sales of premises and equipment.

Noninterest expense for the three months ended September 30, 2023 totaled $11,383 as compared to $5,806 for the same period in 2022, an increase of $5,577 or 96.06 percent. The change in noninterest expense was primarily a result of the merger with Cape Fear Farm Credit driving up operating expenses contributing to a $3,860 increase in salaries and employee benefits, a $983 increase in other operating expenses, a $413 increase in insurance fund premiums, a $195 increase in occupancy and equipment, a $91 increase in data processing, a $32 increase in purchased services and a $3 increase in losses on other property owned.

For the nine months ended September 30, 2023

Net income for the nine months ended September 30, 2023 totaled $40,429 as compared to $17,980 for the same period in 2022, an increase of $22,449 or 124.86 percent. The change in net income was primarily driven by the favorable impact of the merger on net interest income due to increased loan volume as well as higher patronage refunds, partially offset by higher operating expenses and increased provision for credit losses.

For the nine months ended September 30, 2023, net interest income increased $39,225 or 150.20 percent as compared to the same period in 2022. The change in net interest income was primarily driven by earnings on acquired loans and investment securities from the merger with Cape Fear Farm Credit. Interest income on loans increased by $82,228 and interest income from investment securities increased by $110. These increases were offset by higher interest expense which increased by $43,113 compared to the same period last year.

There was a provision for credit losses of $10,944 for the nine months ended September 30, 2023 as compared to a reversal of credit losses of $444 at September 30, 2022. The change in provision was primarily driven by the merger accounting for the allowance for loan losses resulting from the merger with Cape Fear Farm Credit as well as increases in both the general and specific reserves.

Noninterest income for the nine months ended September 30, 2023 totaled $19,987 as compared to $8,849 for the same period in 2022, an increase of $11,138 or 125.87 percent. Items contributing to the increase included a $9,349 increase in patronage refunds from other Farm Credit institutions, a $1,457 increase in loan fee income, a $903 decrease in losses on other transactions, and a $585 increase in fees for financially related services. The overall increase was offset by a $1,156 decrease in gains on sales of premises and equipment.

Noninterest expense for the nine months ended September 30, 2023 totaled $33,898 as compared to $17,415 for the same period in 2022, an increase of $16,483 or 94.65 percent. The change in noninterest expense was primarily a result of the merger with Cape Fear Farm Credit driving up operating expenses contributing to a $10,711 increase in salaries and employee benefits, a $2,904 increase in other operating expenses, a $1,224 increase in insurance fund premiums, an $808 increase in purchased services, a $554 increase in occupancy and equipment, a $273 increase in data processing, and a $9 increase in losses on other property owned.

FUNDING SOURCES

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Notes payable to the Bank at September 30, 2023 was $2,116,071 as compared to $1,072,805 at December 31, 2022. The $1,043,266 or 97.25 percent increase during the nine month period was a result of an increase in the Association's loan volume driven by the acquisition of loans from the merger with Cape Fear Farm Credit.

CAPITAL RESOURCES

Total members' equity at September 30, 2023 totaled $531,535, an increase of $230,257 or 76.43 percent as compared to $301,278 at December 31, 2022. The increase is attributed to a cumulative effect of change in accounting principle of $4,135 due to the implementation of FASB issued ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments on January 1, 2023, total comprehensive income of $40,439 for the nine months ended September 30, 2023, net capital stock/participation certificates retired of $8,510, and an additional paid-in-capital of $194,198 due to capital acquired through the merger with Cape Fear Farm Credit, offset by a patronage distribution adjustment of $5.

The capital regulations ensure that the System's capital requirements are comparable to the Base III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity tier 1 (CETI) capital, tier 1 capital, and total regulatory capital risk-based ratios. The regulations also include a tier 1 leverage ratio which includes an unallocated retained earnings (URE) and URE equivalents (UREE) component. The permanent capital ratio (PCR) remains in effect.

The following sets forth the Association's regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2023
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.5%	7.0%	17.35 %
Tier 1 Capital	6.0%	2.5%	8.5%	17.35 %
Total Capital	8.0%	2.5%	10.5%	17.92 %
Permanent Capital Ratio	7.0%	0.0%	7.0%	18.34 %
Non-risk-adjusted:				
Tier 1 Leverage Ratio*	4.0%	1.0%	5.0%	17.64 %
UREE Leverage Ratio	1.5%	0.0%	1.5%	17.38 %

** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

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

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

REGULATORY MATTERS

On October 12, 2023, the Farm Credit Administration approved a final rule governing the Farm Credit System's service to young, beginning, and small (YBS) farmers and ranchers. The rule requires banks that fund the direct-lender associations to annually review and approve the association YBS programs. The rule also requires direct-lender associations to enhance the strategic plan of its YBS program. The strategic plan must contain specific elements that will be evaluated as part of a rating system to measure year-over-year internal progress, which would allow the Farm Credit Administration to compare the success of the direct-lender' association's YBS program. The final rule becomes effective on February 1, 2024.

On October 5, 2023, the Farm Credit Administration approved a final rule on cyber risk management that requires each System institution to develop and implement a comprehensive, written cyber risk management program. Each institution's cyber risk plan must require the institution to take the actions to assess internal and external risk factors, identify potential system and software vulnerabilities, establish a risk management program for the risks identified, develop a cyber risk training program, set policies for managing third-party relationships, maintain robust internal controls and establish board reporting requirements. The final rule will become effective on January 1, 2025.

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

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

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

Prior to the discontinuance of LIBOR, the Association exposure to LIBOR arose from loans made to customers and the note payable to AgFirst Farm Credit Bank. To the extent necessary, substantially all financial instruments that referenced LIBOR were amended to incorporate adequate fallbacks, including, where appropriate, the Secured Overnight Finance Rate (SOFR)-based fallbacks recommended by the Alternative Reference Rates Committee (ARRC).

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2022 Annual Report to Shareholders for recently adopted accounting pronouncements.

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-472-210-3281, ext. 3281, or writing Charles M. Hester, Chief Financial Officer, AgCarolina Farm Credit, ACA, P. O. Box 14789, Raleigh, NC 27620, or accessing the website, *www.agcarolina.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

AgCarolina Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	**September 30, 2023**	**December 31, 2022**
	(unaudited)	*(audited)*
Assets		
Cash	**$ 5**	$ 93
Investments in debt securities:		
Held to maturity (fair value of $2,062 and $0, respectively)	**2,432**	—
Loans	**2,572,529**	1,362,645
Allowance for loan losses	**(14,583)**	(9,034)
Net loans	**2,557,946**	1,353,611
Loans held for sale	**24**	—
Accrued interest receivable	**41,578**	17,522
Equity investments in other Farm Credit institutions	**30,751**	16,607
Premises and equipment, net	**20,619**	14,722
Accounts receivable	**15,735**	8,922
Other assets	**4,501**	3,939
Total assets	**$ 2,673,591**	$ 1,415,416
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 2,116,071**	$ 1,072,805
Accrued interest payable	**7,170**	2,995
Patronage refunds payable	**127**	24,507
Accounts payable	**4,136**	2,539
Advanced conditional payments	**—**	37
Other liabilities	**14,552**	11,255
Total liabilities	**2,142,056**	1,114,138
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**30,251**	35,739
Additional paid-in-capital	**65,531**	—
Retained earnings		
Allocated	**321,598**	194,581
Unallocated	**114,339**	70,958
Accumulated other comprehensive income (loss)	**(184)**	—
Total members' equity	**531,535**	301,278
Total liabilities and members' equity	**$ 2,673,591**	$ 1,415,416

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

AgCarolina Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Interest Income				
Loans	**$ 44,364**	$ 16,749	**$ 126,937**	$ 44,709
Investments	**36**	—	**110**	—
Total interest income	**44,400**	16,749	**127,047**	44,709
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**23,129**	7,640	**61,707**	18,594
Net interest income	**21,271**	9,109	**65,340**	26,115
Provision for (reversal of) allowance for credit losses	**817**	(444)	**10,944**	(444)
Net interest income after provision for (reversal of) allowance for credit losses	**20,454**	9,553	**54,396**	26,559
Noninterest Income				
Loan fees	**917**	507	**3,643**	2,186
Fees for financially related services	**4**	1	**600**	15
Patronage refunds from other Farm Credit institutions	**5,317**	2,290	**15,913**	6,564
Gains (losses) on sales of premises and equipment, net	**70**	85	**80**	1,236
Gains (losses) on other transactions	**148**	(480)	**(251)**	(1,154)
Other noninterest income	**—**	—	**2**	2
Total noninterest income	**6,456**	2,403	**19,987**	8,849
Noninterest Expense				
Salaries and employee benefits	**7,333**	3,473	**21,838**	11,127
Occupancy and equipment	**450**	255	**1,357**	803
Insurance Fund premiums	**948**	535	**2,711**	1,487
Purchased services	**575**	543	**1,788**	980
Data processing	**174**	83	**560**	287
Other operating expenses	**1,900**	917	**5,635**	2,731
(Gains) losses on other property owned, net	**3**	—	**9**	—
Total noninterest expense	**11,383**	5,806	**33,898**	17,415
Income before income taxes	**15,527**	6,150	**40,485**	17,993
Provision for income taxes	**18**	9	**56**	13
Net income	**$ 15,509**	$ 6,141	**$ 40,429**	$ 17,980
Other comprehensive income net of tax				
Employee benefit plans adjustments	**3**	—	**10**	—
Comprehensive income	**$ 15,512**	$ 6,141	**$ 40,439**	$ 17,980

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

AgCarolina Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2021	$ 36,457	$ —	$ 177,724	$ 79,711	$ —	$ 293,892
Comprehensive income				17,980	—	17,980
Capital stock/participation certificates issued/(retired), net	7,837					7,837
Dividends declared/paid	167			(167)		—
Patronage distribution adjustment		—	8,933	(9,189)		(256)
Balance at September 30, 2022	$ 44,461	$ —	$ 186,657	$ 88,335	$ —	$ 319,453
Balance at December 31, 2022	**$ 35,739**	**$ —**	**$ 194,581**	**$ 70,958**	**$ —**	**$ 301,278**
Cumulative effect of change in accounting principle				**4,135**		**4,135**
Comprehensive income				**40,429**	**10**	**40,439**
Capital stock/participation certificates issued/(retired), net	**(8,510)**					**(8,510)**
Dividends declared/paid	**429**			**(429)**		**—**
Equity re-characterized due to merger	**2,593**	**65,531**	**126,268**		**(194)**	**194,198**
Patronage distribution adjustment			**749**	**(754)**		**(5)**
Balance at September 30, 2023	**$ 30,251**	**$ 65,531**	**$ 321,598**	**$ 114,339**	**$ (184)**	**$ 531,535**

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

AgCarolina Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

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

Effective January 1, 2023, the Association merged with Cape Fear Farm Credit, ACA. See Note 9, *Merger Activity*, for further information.

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

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

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

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

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

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

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

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

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

	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for loan losses	$ 9,034	$ (4,357)	$ 4,677
Liabilities:			
Allowance for credit losses on unfunded commitments	$ –	$ 222	$ 222
Retained earnings:			
Unallocated retained earnings	$ 70,958	$ 4,135	$ 75,093

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

Loans and Allowance for Credit Losses

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

Nonaccrual Loans

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

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

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

Accrued Interest Receivable

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral Dependent Loans

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

Allowance for Credit Losses

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

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

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

Methodology for Allowance for Credit Losses on Loans

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

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

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

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

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

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

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

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

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

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

Allowance for Credit Losses on Unfunded Commitments

The Association evaluates the need for an allowance for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and included in Other Liabilities on the Consolidated Balance Sheets. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the Association and applying the loss factors used in the allowance for loan losses methodology to the results of the usage calculation.

Note 2 — Loans and Allowance for Credit Losses

A summary of loans outstanding at period end follows:

	September 30, 2023	December 31, 2022
Real estate mortgage	$ 1,506,821	$ 785,221
Production and intermediate-term	732,490	451,508
Agribusiness:		
Loans to cooperatives	24,710	3,156
Processing and marketing	146,956	64,436
Farm-related business	65,182	17,264
Rural infrastructure:		
Communication	22,983	3,062
Power and water/waste disposal	11,749	431
Rural residential real estate	53,072	36,787
Other:		
International	4,629	780
Lease receivables	3,892	–
Other (including mission related)	45	–
Total loans	$ 2,572,529	$ 1,362,645

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

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

	September 30, 2023							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 29,423	$ 362,992	$ –	$ 5,752	$ 28,340	$ –	$ 57,763	$ 368,744
Production and intermediate-term	58,746	286,779	7,787	153,178	–	–	66,533	439,957
Agribusiness	137,980	2,423	11,015	1,500	–	–	148,995	3,923
Rural infrastructure	35,112	–	–	–	–	–	35,112	–
Other	4,741	–	4,170	–	–	–	8,911	–
Total	$ 266,002	$ 652,194	$ 22,972	$ 160,430	$ 28,340	$ –	$ 317,314	$ 812,624

	December 31, 2022							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 13,242	$ 28,649	$ –	$ –	$ –	$ –	$ 13,242	$ 28,649
Production and intermediate-term	22,841	47,247	5,726	149,838	–	–	28,567	197,085
Agribusiness	31,706	14,894	1,455	–	–	–	33,161	14,894
Rural infrastructure	3,505	–	–	–	–	–	3,505	–
Other	782	–	–	–	–	–	782	–
Total	$ 72,076	$ 90,790	$ 7,181	$ 149,838	$ –	$ –	$ 79,257	$ 240,628

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

	September 30, 2023	December 31, 2022*
Real estate mortgage:		
Acceptable	95.91%	95.15%
OAEM	3.02	3.88
Substandard/doubtful/loss	1.07	0.97
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	93.37%	94.30%
OAEM	4.45	3.97
Substandard/doubtful/loss	2.18	1.73
	100.00%	100.00%
Agribusiness:		
Acceptable	99.22%	96.75%
OAEM	0.44	3.25
Substandard/doubtful/loss	0.34	–
	100.00%	100.00%
Rural infrastructure:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.45%	98.62%
OAEM	1.34	1.31
Substandard/doubtful/loss	0.21	0.07
	100.00%	100.00%
Other:		
Acceptable	98.63%	100.00%
OAEM	0.53	–
Substandard/doubtful/loss	0.84	–
	100.00%	100.00%
Total loans:		
Acceptable	95.61%	95.08%
OAEM	3.10	3.79
Substandard/doubtful/loss	1.29	1.13
	100.00%	100.00%

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

Accrued interest receivable on loans of $41,565 and $17,522 at September 30, 2023 and December 31, 2022, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

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

	September 30, 2023					
	30 Through 89 Days Past Due	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**> 90 Days or More Past Due and Accruing**
Real estate mortgage	$ 3,951	$ 3,532	$ 7,483	$ 1,499,338	$ 1,506,821	$ –
Production and intermediate-term	3,138	1,850	4,988	727,502	732,490	–
Agribusiness	128	796	924	235,924	236,848	–
Rural infrastructure	–	–	–	34,732	34,732	–
Rural residential real estate	891	–	891	52,181	53,072	–
Other	–	72	72	8,494	8,566	–
Total	$ 8,108	$ 6,250	$ 14,358	$ 2,558,171	$ 2,572,529	$ –

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

	December 31, 2022					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	> 90 Days or More Past Due and Accruing
Real estate mortgage	$ 2,264	$ 2,468	$ 4,732	$ 789,928	$ 794,660	$ –
Production and intermediate-term	159	1,106	1,265	457,689	458,954	–
Agribusiness	–	–	–	85,341	85,341	–
Rural infrastructure	–	–	–	3,496	3,496	–
Rural residential real estate	237	–	237	36,683	36,920	–
Other	–	–	–	796	796	–
Total	$ 2,660	$ 3,574	$ 6,234	$ 1,373,933	$ 1,380,167	$ –

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

	September 30, 2023
Nonaccrual loans:	
Real estate mortgage	$ 5,958
Production and intermediate-term	5,752
Agribusiness	796
Other	71
Total	$ 12,577
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 12,577
Other property owned	–
Total nonperforming assets	$ 12,577
Nonaccrual loans as a percentage of total loans	0.49%
Nonperforming assets as a percentage of total loans and other property owned	0.49%
Nonperforming assets as a percentage of capital	2.37%

	December 31, 2022*
Nonaccrual loans:	
Real estate mortgage	$ 3,937
Production and intermediate-term	5,003
Total	$ 8,940
Accruing restructured loans:	
Real estate mortgage	$ 2,568
Production and intermediate-term	514
Total	$ 3,082
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 12,022
Other property owned	–
Total nonperforming assets	$ 12,022
Nonaccrual loans as a percentage of total loans	0.66%
Nonperforming assets as a percentage of total loans and other property owned	0.88%
Nonperforming assets as a percentage of capital	3.99%

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

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

	September 30, 2023			Interest Income Recognized on Nonaccrual Loans	
Nonaccrual loans:	**Amortized Cost with Allowance**	**Amortized Cost without Allowance**	**Total**	**Three Months Ended September 30, 2023**	**Nine Months Ended September 30, 2023**
Real estate mortgage	$ 2,980	$ 2,978	$ 5,958	$ 96	$ 434
Production and intermediate-term	4,938	814	5,752	93	419
Agribusiness	789	7	796	13	58
Other	30	41	71	1	5
Total	$ 8,737	$ 3,840	$ 12,577	$ 203	$ 916

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for Loan Losses:							
Balance at June 30, 2023	$ 6,170	$ 6,667	$ 1,156	$ 16	$ 39	$ 156	$ 14,204
Charge-offs	(66)	(2)	–	–	–	–	(68)
Recoveries	7	5	1	–	–	–	13
Provision for loan losses	204	189	20	4	2	15	434
Balance at September 30, 2023	$ 6,315	$ 6,859	$ 1,177	$ 20	$ 41	$ 171	$ 14,583
Allowance for Unfunded Commitments:							
Balance at June 30, 2023	$ 172	$ 347	$ 174	$ 4	$ 3	$ 4	$ 704
Provision for unfunded commitments	(9)	262	123	5	(1)	3	383
Balance at September 30, 2023	$ 163	$ 609	$ 297	$ 9	$ 2	$ 7	$ 1,087
Total allowance for credit losses	$ 6,478	$ 7,468	$ 1,474	$ 29	$ 43	$ 178	$ 15,670
Allowance for Loan Losses:							
Balance at December 31, 2022	$ 5,158	$ 3,059	$ 551	$ 23	$ 238	$ 5	$ 9,034
Cumulative effect of a change in accounting principle	(2,986)	(847)	(291)	(20)	(209)	(4)	(4,357)
Balance at January 1, 2023	$ 2,172	$ 2,212	$ 260	$ 3	$ 29	$ 1	$ 4,677
Charge-offs	(200)	(27)	(13)	–	–	–	(240)
Recoveries	34	32	1	–	–	–	67
Provision for loan losses	4,309	4,642	929	17	12	170	10,079
Balance at September 30, 2023	$ 6,315	$ 6,859	$ 1,177	$ 20	$ 41	$ 171	$ 14,583
Allowance for Unfunded Commitments:							
Balance at December 31, 2022	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Cumulative effect of a change in accounting principle	5	142	71	3	–	1	222
Balance at January 1, 2023	$ 5	$ 142	$ 71	$ 3	$ –	$ 1	$ 222
Provision for unfunded commitments	158	467	226	6	2	6	865
Balance at September 30, 2023	$ 163	$ 609	$ 297	$ 9	$ 2	$ 7	$ 1,087
Total allowance for credit losses	$ 6,478	$ 7,468	$ 1,474	$ 29	$ 43	$ 178	$ 15,670
Allowance for Loan Losses*:							
Balance at June 30, 2022	$ 6,854	$ 5,613	$ 718	$ 29	$ 305	$ –	$ 13,519
Charge-offs	–	–	–	–	–	–	–
Recoveries	–	4	–	–	–	–	4
Provision for loan losses	(502)	110	(50)	(2)	(21)	21	(444)
Balance at September 30, 2022	$ 6,352	$ 5,727	$ 668	$ 27	$ 284	$ 21	$ 13,079
Balance at December 31, 2021	$ 6,977	$ 5,573	$ 624	$ 3	$ 307	$ –	$ 13,484
Charge-offs	(70)	(10)	–	–	–	–	(80)
Recoveries	12	107	–	–	–	–	119
Provision for loan losses	(567)	57	44	24	(23)	21	(444)
Balance at September 30, 2022	$ 6,352	$ 5,727	$ 668	$ 27	$ 284	$ 21	$ 13,079

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

Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one, or a combination of, principal forgiveness, interest rate reduction, or a term or payment extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions. Modified loans to borrowers experiencing financial difficulty and activity on these loans were not material during the three and nine months ended September 30, 2023. There were no material commitments to lend to borrowers experiencing financial difficulty whose loans have been modified at September 30, 2023.

Loans held for sale were $24 and $0 at September 30, 2023 and December 31, 2022, respectively. Such loans are carried at the lower of cost or fair value.

Troubled Debt Restructurings

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

The following tables present additional information regarding troubled debt restructurings that occurred during the period: There were no new TDRs that occurred during the three months ended September 30, 2022.

	Nine Months Ended September 30, 2022*				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 32	$ –	$ –	$ 32	
Production and intermediate-term	–	5,270	–	5,270	
Total	$ 32	$ 5,270	$ –	$ 5,302	
Post-modification:					
Real estate mortgage	$ 32	$ –	$ –	$ 32	$ –
Production and intermediate-term	–	5,308	–	5,308	–
Total	$ 32	$ 5,308	$ –	$ 5,340	$ –

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

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

The following table presents TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the three and nine months ended September 30, 2022. Payment default is defined as a payment that was thirty days or more past due.

Defaulted troubled debt restructurings	**Three Months Ended September 30, 2022***	**Nine Months Ended September 30, 2022***
Real estate mortgage	$ 900	$ 900
Production and intermediate term	3,994	3,994
Total	$ 4,894	$ 4,894

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

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

	December 31, 2022*	
	Total TDRs	**Nonaccrual TDRs**
Real estate mortgage	$ 3,373	$ 805
Production and intermediate-term	5,264	4,750
Total loans	$ 8,637	$ 5,555
Additional commitments to lend	$ –	

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

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At September 30, 2023, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity, which were acquired in the Association's merger that was effective January 1, 2023, follows. See Note 9, *Merger Activity*, for further information.

	September 30, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 2,432	$ –	$ (370)	$ 2,062	5.95%

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

	September 30, 2023		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	– %
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	2,432	2,062	5.95
Total	$ 2,432	$ 2,062	5.95 %

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

The Association evaluates investment securities with unrealized losses for impairment on a quarterly basis. As part of this assessment, it was concluded that the Association does not intend to sell the security, or it is not more likely than not that the Association would be required to sell the security prior to recovery of the amortized cost basis. The Association also evaluates whether credit impairment exists by comparing the present value of expected cash flows to the amortized cost basis of the security. Credit impairment, if any, is recorded as an ACL for debt securities. At September 30, 2023, the Association does not consider any unrealized losses to be credit-related and an allowance for credit losses is not necessary.

Equity Investments in Other Farm Credit Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 7.71 percent of the issued stock and allocated retained earnings of the Bank as of September 30, 2023, net of any reciprocal investment. As of that date, the Bank's assets totaled $43.4 billion and shareholders' equity totaled $1.4 billion. The Bank's earnings were $195 million for the first nine months of 2023. In addition, the Association held investments of $1,262 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component *(a)*			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Employee Benefit Plans:				
Balance at beginning of period	$ (187)	$ –	$ –	$ –
Equity re-characterized due to merger	–	–	(194)	–
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	3	–	10	–
Net current period other comprehensive income	3	–	10	–
Balance at end of period	$ (184)	$ –	$ (184)	$ –

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*				
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2023	2022	2023	2022	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (3)	$ –	$ (10)	$ –	See Note 7.
Net amounts reclassified	$ (3)	$ –	$ (10)	$ –	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	September 30, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 3,791	$ –	$ –	$ 3,791
Nonrecurring assets				
Nonaccrual loans*	$ –	$ –	$ 5,795	$ 5,795
Other property owned	$ –	$ –	$ –	$ –

	December 31, 2022			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 3,860	$ –	$ –	$ 3,860
Nonrecurring assets				
Impaired loans**	$ –	$ –	$ 2,675	$ 2,675
Other property owned	$ –	$ –	$ –	$ –

**Carrying value of nonaccrual loans is the balance of loans with a related specific reserve ($8,737) less related specific reserves ($4,264) associated with nonaccrual loans plus nonaccrual loans with no specific reserve with an associated charge-off ($1,322).*

***Carrying value of impaired loans is the balance of loans with a related specific reserve ($2,104) less related specific reserves ($196) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($767). Prior to the adoption of CECL on January 1, 2023, the fair value of impaired loans included accruing restructured loans and loans past due 90 days and accruing.*

Valuation Techniques

Assets held in trust funds

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

Nonaccrual loans

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

Other property owned

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

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Pension	$ 394	$ 225	$ 1,101	$ 674
401(k)	340	183	1,240	712
Other postretirement benefits	178	96	534	293
Total	$ 912	$ 504	$ 2,875	$ 1,679

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

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Merger Activity

Effective January 1, 2023, Cape Fear Farm Credit, ACA (Cape Fear) merged with and into AgCarolina Farm Credit, ACA (AgCarolina) to form the merged Association. The effects of the merger are included in the Association's results of operations, statement of condition, average balances, and related metrics beginning January 1, 2023.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of September 30, 2023. The Consolidated Statements of Income and Members' Equity include the merged Association after January 1, 2023 and do not include the results of Cape Fear prior to January 1, 2023. Information in the Notes to the Consolidated Financial Statements for 2022 does not include balances and transactional activity for Cape Fear.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the common stock shares of Cape Fear that were converted in the merger and the common stock shares of AgCarolina to which they were converted had identical rights and attributes. For this reason, the conversion of Cape Fear stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each Cape Fear share was converted into one share of AgCarolina's stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the AgCarolina stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, AgCarolina undertook a process to identify and estimate the acquisition date fair value of Cape Fear's equity interests instead of the acquisition date fair value of AgCarolina's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from Cape Fear, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. In addition, no material amounts of intangible assets were acquired. As a result, management recorded no goodwill. A net increase of $194.2 million was recorded in stockholders' equity related to the merger.

The following condensed statement of net assets acquired reflects the fair value assigned to Cape Fear's net assets as of the date of acquisition. There were no subsequent changes to these fair values.

	Cape Fear
Assets:	
Net loans	$ 1,077,161
Accrued interest receivable	10,007
Other assets	35,965
Total assets	$ 1,123,133
Liabilities:	
Notes payable	$ 893,556
Accrued interest payable	2,524
Other liabilities	32,855
Total liabilities	$ 928,935
Fair value of net assets acquired	$ 194,198

Fair value adjustments to Cape Fear's assets and liabilities included an $80.5 million decrease to loans and a $32.3 million decrease to notes payable to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis.

Note 10 — Subsequent Events

The Association evaluated subsequent events and determined that, except for as described below, there were none requiring disclosure through November 8, 2023, which was the date the financial statements were issued.

On October 27, 2023, the AgFirst Board of Directors approved an increase to the Association Investment in AgFirst from 1.00 percent to 1.50 percent effective October 31, 2023. This resulted in an increase in the equity investment in AgFirst of $11.8 million to $41.3 million.