
FARM CREDIT
OF FLORIDA
ANNUAL REPORT
2023

FARM CREDIT OF FLORIDA, ACA

2023 ANNUAL REPORT

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Marcus A. Boone .... President & Chief Executive Officer
Clinton Bower .... Chief Lending Officer
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Roland Kampf .... Chief Risk Officer
Ashley Layson .... Chief Marketing Officer
Jonathan Ray .... Chief Operating Officer

Board of Directors

Bobby G. "Bob" Lines .... Chairman
Wayne H. Simmons .... Vice Chairman
John L. Alger .... Director
Tobin J. "Toby" Basore .... Director
Howard P. "Rowdy" Bateman .... Director
Roger W. Davis .... Director
W. Eric Hopkins .... Appointed Stockholder Director
Joseph C. Joyce .... Outside Director
Martin J. "Marty" McKenna .... Director
John R. Newbold, III .... Director
Harrell H. "Hal" Phillips, Jr. .... Director
Francisco J. Pines .... Outside Director
Robert G. "Bobby" Sexton .... Director
Alisa "Lisa" Sherman .... Appointed Stockholder Director
Donald G. "Don" Tanner, Jr. .... Director
Amanda E. Taylor .... Outside Director

Message from the President & Chief Executive Officer

I want to express my sincere appreciation for your ongoing support and partnership with Farm Credit of Florida. Your trust in us as your financial institution is incredibly important to us, and we're truly grateful for the opportunity to serve you.

Here at Farm Credit of Florida, our members are at the heart of everything we do. Our mission is clear: to support agriculture and rural communities with reliable credit and financial services, today and tomorrow. We're deeply rooted in agriculture because it's not just what we do, it's who we are. Our passion lies in supporting our farmers & ranchers, their families, and rural communities.

As a cooperative, we're in this together. Your feedback, insights, and suggestions are invaluable to us. We genuinely appreciate every comment and survey response we receive, and we take them all seriously. They help us identify what we're doing well and where we can improve.

We're also big on personal connections. To ensure that we stay in touch with the ever-changing landscape of the agricultural industry, we have established multiple advisory committees. These committees are composed of agriculturalists from all over the state, representing a diverse range of commodities and levels of experience. Their invaluable insights and perspectives enable us to better understand the needs of our members and the entire agriculture spectrum.. By listening to the feedback we receive in these meetings and in our conversations with you, we can continue to refine our solutions to meet your needs.

One piece of feedback we've received loud and clear is the need to enhance our technology. Our funding bank, AgFirst Farm Credit Bank, has also received the same feedback from around the District. So, in 2023, we kicked off a major upgrade to our accounting system and digital banking services. We're still working on a few adjustments, and there will always be upgrades as we stay abreast of changes in technology; however, this upgrade has modernized our operations, making them more efficient, convenient, and secure.

Our team is dedicated to providing exceptional customer service and we always strive to exceed your expectations. We understand that getting the financing you need quickly, efficiently, and seamlessly is important to keep your operation running. When a crisis occurs or opportunities arise, we want you to know that you can rely on us. In 2023, we also made significant changes to our lending procedures to expedite transactions below $1 million. Our ongoing plans for process enhancements in 2024 and beyond reflect our dedication to meeting your needs and surpassing your expectations.

For over a century, Farm Credit has been fulfilling its mission, through thick and thin. Our commitment to fulfilling our mission remains as strong as ever, and we're dedicated to continuing to evolve and innovate to meet your needs both now and in the future. We are here to work hand-in-hand with you as we evolve and innovate to meet the needs of agriculture and rural communities for the next hundred years and beyond.

Sincerely,

Marcus A. Boone
President and Chief Executive Officer

March 7, 2024

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Farm Credit of Florida, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been audited by independent auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2023 Annual Report of Farm Credit of Florida, ACA that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Bobby G. Lines
Chairman of the Board

Marcus A. Boone
Chief Executive Officer

Laura Craker
Chief Financial Officer

March 7, 2024

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, to provide 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 and 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 December 31, 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 December 31, 2023, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2023.

Marcus A. Boone
Chief Executive Officer

Laura Craker
Chief Financial Officer

March 7, 2024

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	**2023**	**2022**	**December 31, 2021**	**2020**	**2019**
Balance Sheet Data					
Cash	**$ 14**	$ 16	$ 16	$ 14	$ 561
Investments in debt securities	**1,781**	2,040	2,286	2,589	3,760
Loans	**1,578,069**	1,511,721	1,401,695	1,331,550	1,270,427
Allowance for loan losses	**(9,366)**	(8,685)	(9,078)	(10,043)	(8,321)
Net loans	**1,568,703**	1,503,036	1,392,617	1,321,507	1,262,106
Equity investments in other Farm Credit institutions	**26,273**	19,286	13,775	14,991	15,119
Other property owned	**—**	—	—	—	31
Other assets	**39,313**	27,603	39,907	36,394	30,217
Total assets	**$ 1,636,084**	$1,551,981	$1,448,601	$1,375,495	$1,311,794
Notes payable to AgFirst Farm Credit Bank*	**$ 1,246,767**	$1,178,379	$1,094,413	$1,048,130	$1,005,717
Accrued interest payable and other liabilities with maturities of less than one year	**38,073**	36,107	34,381	30,147	26,743
Total liabilities	**1,284,840**	1,214,486	1,128,794	1,078,277	1,032,460
Protected borrower stock	**445**	445	445	445	445
Capital stock and participation certificates	**2,399**	2,437	2,968	2,803	2,633
Additional paid-in-capital	**7,873**	7,873	7,873	7,873	7,873
Retained earnings					
Allocated	**147,634**	141,579	135,975	127,974	121,989
Unallocated	**193,037**	185,301	172,785	158,384	146,634
Accumulated other comprehensive income (loss)	**(144)**	(140)	(239)	(261)	(240)
Total members' equity	**351,244**	337,495	319,807	297,218	279,334
Total liabilities and members' equity	**$ 1,636,084**	$1,551,981	$1,448,601	$1,375,495	$1,311,794
Statement of Income Data					
Net interest income	**$ 45,359**	$ 39,706	$ 35,206	$ 34,119	$ 34,563
Provision for (reversal of) allowance for credit losses	**4,917**	(1,078)	(1,580)	1,514	(538)
Noninterest income (expense), net	**(12,603)**	(6,161)	3,118	(368)	(7,948)
Net income	**$ 27,839**	$ 34,623	$ 39,904	$ 32,237	$ 27,153
Key Financial Ratios					
Rate of return on average:					
Total assets	**1.75%**	2.37%	2.89%	2.43%	2.22%
Total members' equity	**7.88%**	10.33%	12.80%	11.05%	9.79%
Net interest income as a percentage of average earning assets	**2.92%**	2.77%	2.60%	2.62%	2.88%
Net (chargeoffs) recoveries to average loans	**(0.219)%**	0.048%	0.045%	0.016%	(0.027)%
Total members' equity to total assets	**21.47%**	21.75%	22.08%	21.61%	21.29%
Debt to members' equity (:1)	**3.66**	3.60	3.53	3.63	3.70
Allowance for loan losses to loans	**0.59%**	0.57%	0.65%	0.75%	0.66%
Permanent capital ratio	**18.67%**	19.26%	19.56%	18.99%	19.32%
Common equity tier 1 capital ratio	**18.55%**	19.16%	19.45%	18.87%	19.21%
Tier 1 capital ratio	**18.55%**	19.16%	19.45%	18.87%	19.21%
Total regulatory capital ratio	**19.27%**	19.69%	20.06%	19.56%	19.81%
Tier 1 leverage ratio**	**20.95%**	21.83%	22.13%	21.17%	21.32%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**17.21%**	17.86%	18.01%	16.94%	16.82%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 14,500**	$ 16,500	$ 17,500	$ 14,500	$ 13,000
Nonqualified retained earnings	**5,804**	5,037	6,792	4,956	3,782

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2024.*

*** Tier 1 leverage ratio must include a minimum of 1.50% of URE and URE equivalents.*

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Farm Credit of Florida, ACA, (Association) for the year ended December 31, 2023 with comparisons to the years ended December 31, 2022 and December 31, 2021. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for more than 100 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of south and north east Florida. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association may be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.farmcreditfl.com*** or by calling 1-800-432-4156, extension 3070, or writing Laura Craker, Chief Financial Officer, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK

Production agriculture is a cyclical business that is heavily influenced by commodity prices, weather, government policies (including, among other things, tax, trade, immigration, crop insurance and periodic aid), interest rates, input costs and various other factors that affect supply and demand.

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data for the Association.

The USDA's February 2024 forecast estimates net farm income (income after expenses from production) for 2023 at $155.9 billion, a $29.7 billion decrease from the record high 2022 net farm income, but $53.8 billion above the 10-year average. The forecasted decrease in net farm income for 2023, compared with 2022, is primarily due to decreases in cash receipts for animal and animal products of $14.1 billion to $244.4 billion and direct government payments of $3.4 billion to $12.2 billion as well as an increase in cash expenses of $10.4 billion to $412.6 billion.

The USDA's outlook projects net farm income for 2024 at $116.1 billion, a $39.8 billion or 25.5 percent decrease from 2023, but $14.0 billion above the 10-year average. The forecasted decrease in net farm income for 2024 is primarily due to expected decreases in cash receipts for crops of $16.7 billion, cash receipts for animals and animal products of $4.6 billion and direct government payments of $1.9 billion, as well as an increase in cash expenses of $15.4 billion. The expected decline in cash receipts for crops is primarily driven by decreases in corn and soybeans while receipts for fruits and nuts are expected to increase. The decrease in cash receipts for animals and animal products are predicted for eggs, turkeys, cattle/calves and milk, while receipts for hogs and broilers are expected to remain relatively unchanged. Most production expenses are expected to increase from 2023 levels.

Working capital (which is defined as cash and cash convertible assets minus liabilities due to creditors within 12 months) is forecasted to decrease 5.4 percent in 2023 to $122.0 billion from $129.0 billion in 2022.

The value of farm real estate accounted for 84 percent of the total value of the U.S. farm sector assets for 2023 according to the USDA in its February 2024 forecast. Because real estate is such a significant component of the balance sheet of U.S. farms, the value of farm real estate is a critical measure of the farm sector's financial performance. Changes in farmland values also affect the financial well-being of agricultural producers because farm real estate serves as the principal source of collateral for farm loans.

USDA's forecast projects (in nominal dollars) that farm sector equity, the difference between farm sector assets and debt, will rise 6.8 percent in 2023 to $3.6 trillion. Farm real estate value is expected to increase 7.7 percent and non-real estate farm assets are expected to increase 1.3 percent, while farm sector debt is forecasted to increase 4.9 percent in 2023. Farm real estate debt as a share of total debt has been rising since 2014 and is expected to account for 68.2 percent of total farm debt in 2023.

The USDA is forecasting farm sector solvency ratios to improve in 2023 to 14.6 percent for the debt-to-equity ratio and 12.7 percent for the debt-to-asset ratio, which are well below the peak of 28.5 percent and 22.2 percent in 1985.

Expected agricultural commodity prices can influence production decisions of farmers and ranchers, including planted acreage and marketing of crops and livestock inventories, and therefore affect the supply of agricultural commodities. Actual production levels are sensitive to weather conditions that may impact production yields. Livestock and dairy profitability are influenced by crop prices as feed is a significant input to animal agriculture.

Global economic conditions, government actions (including tariffs, war, and response to disease) and weather volatility in key agricultural production regions can influence export and import flows of agricultural products between countries. U.S. exports and imports may periodically shift to reflect short-term disturbances to trade patterns and long-term trends in world population demographics. Also impacting U.S. agricultural trade are global agricultural and commodity supplies and prices, price spreads, changes in the value of the U.S. dollar and the government support for agriculture.

The following table sets forth the commodity prices per bushel for crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2020 to December 31, 2023:

Commodity	12/31/23	12/31/22	12/31/21	12/31/20
Hogs	$ 53.30	$ 62.50	$ 56.50	$ 49.10
Milk	$ 20.60	$ 24.50	$ 21.70	$ 18.30
Broilers	$ 0.74	$ 0.73	$ 0.74	$ 0.44
Turkeys	$ 0.47	$ 1.22	$ 0.84	$ 0.72
Corn	$ 4.80	$ 6.58	$ 5.47	$ 3.97
Soybeans	$ 13.10	$ 14.40	$ 12.50	$ 10.60
Wheat	$ 6.79	$ 8.97	$ 8.59	$ 5.46
Beef Cattle	$ 172.00	$ 154.00	$ 137.00	$ 108.00

Geographic and commodity diversification across the District coupled with existing government safety net programs, ad hoc support programs and additional government disaster aid payment for many borrowers help to mitigate the impact of challenging agricultural conditions. The District's financial performance and credit quality are expected to remain sound overall due to strong capital levels and favorable credit quality position at the end of 2023. Additionally, while the District benefits overall from diversification, individual District entities may have higher geographic, commodity, and borrower concentrations which may accentuate the negative impact on those entities' financial performance and credit quality. Non-farm income support for many borrowers also helps to mitigate the impact of periods of less favorable agricultural conditions. However, agricultural borrowers who are more reliant on non-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Accounting Standard Updates:* 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 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. The impact of adoption was a net decrease to the allowance and an increase to retained earnings of $452. See Note 2 – *Summary of Significant Accounting Policies; A. Accounting Standards Updates (ASUs) Effective During the Period* for additional information.

- *Allowance for Credit losses (ACL)* — 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 ACL comprises the allowance for loan losses, the allowance for unfunded commitments and the allowance for credit losses on investment securities. 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.

  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.

  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 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.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

ECONOMIC CONDITIONS

Inflation has declined in the last half of 2023 as interest rates have risen, cooling the economy resulting in the all items CPI inflation rate down to 3.4% for the 12 months ending December 2023. Over the last 12 months, the all items less food and energy index rose 3.9%, the energy index decreased 2.0% while the food index increased 3.0%. Consumer spending continues to be resilient overall, despite signs of stress like higher default rates on consumer debt and higher credit card balances. The Florida unemployment rate was 3.0% at the end of December 2023, comparing favorably to the national average of 3.7% which is slightly above the level when Florida's economy entered the pandemic with an unemployment rate of 2.7%. Florida's unemployment rate has rebounded after exceeding 14% earlier in 2020. Evidence that inflation, while recently moderating, remains elevated, the Federal Open Market Committee (FOMC) has raised its target range for the fed funds rate by 525 bps in 2022 and 2023 including increasing the balance sheet run-off of Treasury securities and agency debt. Recent indicators suggest that economic activity has continued to expand at a modest pace, job gains have been robust in recent months and the unemployment rate has remained low. The FOMC seeks to achieve maximum employment and inflation at 2% over the longer run. Despite the improvement, management will monitor any potential lingering impacts on its borrowers and loan portfolio as some credit quality deterioration and credit losses may occur. The Association is well capitalized and maintains an adequate allowance for credit losses allowing us to withstand stress in our loan portfolio.

On September 28th, 2022, Hurricane Ian made landfall near Cayo Costa in Southwest Florida as a strong Category 4 Hurricane. Ian thrashed parts of Florida's western coast, bringing intense winds, heavy rainfall, and catastrophic storm surges. Due to the large size of Ian, all of the Association's territory was impacted by the storm in some degree with the southwest region being the most severe. The 2022-23 citrus crop experienced the greatest loss. Dairy, cattle, south field crops and some northern fern operations were also materially impacted. The financial impact this storm had on our customers and the Association has generally been modest, with dairy and citrus farmers in Southwest Florida suffering the greatest losses. Some credit quality deterioration and modest credit losses were experienced.

Hurricane Idalia landed on Keaton Beach, Florida on the morning of August 30, 2023, as a Category 3 storm, bringing high winds and rain to the coastal regions along the western peninsula and inland agricultural counties. The primary area impacted is the Big Bend area and 3 million acres of surrounding agricultural land, which is primarily used for the grazing. Commodities mostly impacted were Timber, Poultry, Dairy and Cattle. Timber was severely impacted in certain areas with up to 80% of hardwoods down. Poultry had structural damage to poultry houses with metal roofs. Dairy was impacted by power outages. FEMA declared a disaster in 16 counties of which seven are within the Association's territory, impacting the Live Oak (Columbia, Hamilton, Lafayette, and Suwanee), Trenton (Dixie and Gilchrist), and Arcadia (Sarasota) Branches with Madison, Hamilton, Suwanee, and Lafayette Counties suffering the greatest impact.

While the impact to the Association's borrowers is still being assessed, it appears that the impact to our overall portfolio is not material. Loss reduction options that are available for some of our customers, such as the use of loan guarantees, crop insurance, and federal disaster relief, have helped mitigate the losses associated with these storm events. The Association is well capitalized and maintains adequate allowance for credit losses, which allows us to withstand stress in our loan portfolio.

Most commodity groups within the portfolio have experienced generally favorable operating results over the last two production seasons with particularly strong results in tomatoes and sweet corn; however, citrus producers remain impacted by citrus greening disease and now the impact of Hurricane Ian. The various challenges from citrus greening disease have caused reduced production and declines in overall profitability for most producers. The final 2022-2023 USDA production report indicates a 62% decrease in production for the 2022-2023 citrus crop, following a 22% decline the previous season. Citrus represented 23.9% of the estimated $1.035 Billion of expected agricultural losses from Hurricane Ian. Despite these factors, the Association's citrus portfolio has continued to perform satisfactorily with performance issues isolated to only a few stressed growers. The outlook for the 2023-2024 season has improved due to the absence of an extreme weather event. The dairy industry has also remained under stress due to supply and demand dynamics, as well as high feed and fuel costs. Most of the Association's dairy loans are to the fluid milk producers who had experienced depressed commodity prices for several years. Pricing declined over the past year, which has stressed producers even more as moderating operating expenses are not making up for the weakened pricing environment.

The horticultural or nursery segment remains satisfactory as residential construction and the overall housing market continues to see ongoing demand. 2023 was stronger than expected, due to moderating operating expenses and strong demand despite challenges in the housing market. The expectation for 2024 is that growth will be modest. The forestry industry has also experienced challenges as packaging and housing, including renovation and repair markets has slowed domestically and global trade remains a concern. The beef cattle industry has strengthened as smaller herd sizes and ongoing strong demand has led to strong prices while feed and transportation costs rises have moderated.

Farm size varies throughout the regions and many borrowers have diversified farming operations. This factor, along with numerous opportunities for non-farm income in the territory, reduces the level of repayment dependency on a single agricultural commodity. Land values in the north region continue to remain steady since their improvement in 2014 with some areas increasing in value. Land values in the south region show stability with values increasing in more urban areas. Overall, land value sale surveys indicate land values are firm with increasing trends seen in certain segments.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

The Association's loan volume by type for each of the past three years is shown below.

Loan Type	December 31, 2023		2022		2021	
	(dollars in thousands)					
Real estate mortgage	$ 876,328	55.53%	$ 837,985	55.43%	$ 812,859	57.99%
Production and intermediate-term	260,136	16.48	267,703	17.71	240,827	17.18
Processing and marketing	176,669	11.20	182,691	12.08	153,768	10.97
Communication	76,978	4.88	70,372	4.66	62,935	4.49
Power and water/waste disposal	72,496	4.59	36,927	2.44	22,916	1.63
Farm-related business	41,854	2.65	47,439	3.14	38,326	2.73
Loans to cooperatives	30,122	1.91	27,967	1.85	35,781	2.55
Rural residential real estate	21,411	1.36	20,339	1.35	18,010	1.28
International	17,506	1.11	15,376	1.02	11,011	0.79
Other (including Mission Related)	4,569	0.29	4,922	0.32	5,262	0.39
Total	$ 1,578,069	100.00%	$ 1,511,721	100.00%	$ 1,401,695	100.00%

While the Association makes loans to qualified borrowers in the agricultural and rural sectors and to certain related entities, the loan portfolio remains diversified by type, commodity, and region.

The geographic distribution of the loan volume by branch/city for the past three years is as follows:

Branch	December 31, 2023	2022	2021
West Palm	11.01%	11.67%	17.58%
Ocala	10.84%	10.38%	9.77%
Homestead	10.35%	10.35%	10.45%
LaBelle	7.74%	9.10%	4.32%
Alachua	6.83%	6.03%	7.32%
Palatka	4.22%	4.31%	4.05%
Vero Beach	3.91%	3.65%	3.62%
Wauchula	3.53%	3.53%	4.27%
Arcadia	3.46%	3.52%	3.57%
Okeechobee	3.19%	3.60%	3.98%
Trenton	2.86%	2.96%	3.30%
Live Oak	2.47%	2.51%	2.48%
Lake Placid	0.18%	0.45%	0.43%
Purchased Loans	29.41%	27.94%	24.86%
Total	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industry Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown in the following table. The predominant commodities are equine, field crops, nursery/greenhouse, cattle, forestry, and tree fruits and nuts, which constitute over 73 percent of the entire portfolio. From 2021 to year end 2023, the nursery group's outstanding volume increased. During the past recession, the nursery portfolio was adversely impacted by the economy and resulted in declining credit quality and a large number of nonperforming loans. As the Florida and national economy has improved, the nursery industry has experienced improving markets and financial results. Trees, landscape plants and sod are dependent on an active home and commercial construction industry while flowering plants and foliage are dependent upon the general economy and discretionary spending of consumers. Increases in equine, field crops, cattle, forestry, and tree fruits and nuts are due to origination of new loans in these commodity segments. The Association has experienced increases in equine and field crops in both the north and south Florida regions.

Commodity Group	December 31, 2023		2022		2021	
	(dollars in thousands)					
Equine	$ 243,824	15.45%	$ 219,636	14.53%	$ 205,777	14.67%
Field Crops	238,349	15.10	238,417	15.76	227,887	16.25
Nursery/Greenhouse	183,590	11.63	188,816	12.49	170,413	12.16
Cattle	178,881	11.34	176,243	11.66	160,716	11.47
Forestry	161,723	10.25	126,460	8.37	126,776	9.04
Tree Fruits and Nuts	154,418	9.79	143,877	9.52	152,013	10.84
Processing	115,223	7.30	114,596	7.58	83,157	5.93
Utilities	98,235	6.23	91,965	6.08	76,053	5.43
Dairy	39,057	2.47	32,001	2.12	39,060	2.79
Grain	23,905	1.51	21,010	1.39	16,792	1.20
Rural Home Loan	21,616	1.37	20,505	1.36	18,301	1.31
Other Real Estate	14,932	0.95	21,148	1.40	22,850	1.63
Swine	12,887	0.82	14,809	0.98	12,288	0.88
Tobacco	11,741	0.74	15,575	1.03	11,976	0.85
Poultry	3,913	0.25	4,561	0.30	6,254	0.45
Corn	1,715	0.11	1,519	0.10	1,343	0.10
Others	74,060	4.69	80,583	5.33	70,039	5.00
Total	$ 1,578,069	100.00%	$ 1,511,721	100.00%	$ 1,401,695	100.00%

The primary increase in loan volume during the last three years is the result of increased demand for credit in the market and more concerted marketing efforts by Association lenders. Repayment ability remains closely related to the commodities produced by our borrowers with some having supplemental nonfarm income. The Association enjoys a diverse commodity portfolio mix with no significant single concentration. While Field Crops is reflected at 15.10 percent of the total portfolio, the group represents a broad classification that includes sugarcane as well as various fruits and vegetables grown throughout the Association's territory. Many of these operations are vertically integrated with processing, sales and marketing which increases their profitability and reduces credit risk to the Association. The Nursery/Greenhouse group, which represents 11.63 percent of the portfolio, is similar to Field Crops in that the classification is also considered broad and covers interior foliage and exterior landscape plants, trees, and sod products with very different market characteristics and credit risk profiles. Citrus, which is included in Tree Fruits and Nuts commodity group, represents approximately 9.79 percent of the portfolio. Many citrus customers have diversified sources of farm and nonfarm income. The Equine and Forestry/Timber groups, at approximately 15.45 percent and 10.25 percent, respectively, also have diversified income sources. For purposes of calculating concentration risks, each loan is classified by the principal product grown. However, many operations are highly diversified, reducing overall risks to their operations and the Association. In addition, the Association also segments repayment based on whether the primary source is from agricultural or nonfarm personal and business income. Approximately 25.83 percent of agricultural loans have nonfarm income sources as the primary repayment source.

The Association continues to see a minor shift in loan assets. Volume increased in long-term real estate loans and capital market purchases. Short and intermediate-term volume was up slightly in 2023 after experiencing a decline during the previous year. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in the fall and rapidly declines in the late spring and early summer months as commodities are marketed and proceeds are applied to repay operating loans. The Association continues to exhibit new loan growth in commercial transactions.

The Association remains active in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen our capital position.

Loan Participations:	December 31, 2023	2022	2021
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 465,945	$ 416,506	$ 351,297
Participations Purchased – Non-FCS Institutions	3,112	5,818	5,238
Participations Sold	(360,882)	(363,492)	(267,386)
Total	$ 108,175	$ 58,832	$ 89,149

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2023.

The Association sells qualified long-term mortgage residential loans into the secondary market. For the periods ended December 31, 2023, 2022 and 2021, the Association originated loans for resale totaling $22,867, $32,077, and $39,145, respectively, which were sold into the secondary market.

The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2023, 2022, and 2021, the Association had no loans that are 100 percent guaranteed by Farmer Mac.

The Association also has loans wherein a certain portion is guaranteed by various governmental entities for the purposes of reducing risk. At December 31, 2023, 2022, and 2021, the balance of these loans was $23,770, $27,119, and $30,105, respectively.

MISSION RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2023, the Association had $6,028 in Rural America Bonds, of which $4,604 was classified as Loans and $1,424 were classified as Investments on the Consolidated Balance Sheets. As of December 31, 2022, the Association had $6,426 in Rural America Bonds, of which $4,957 was classified as Loans and $1,469 were classified as Investments. As of December 31, 2021, the Association had $6,734 in Rural America Bonds, of which $5,220 were classified as Loans and $1,514 was classified as Investments.

Effective December 31, 2014, 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 investment 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.

Refer to Note 4, *Investments,* of the Notes to the Consolidated Financial Statements for additional information regarding these Mission Related Investments.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for risk management purposes. The Bank is responsible for approving the investment activities of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association's investments consist primarily of asset-backed securities (ABS). The ABS investments amounted to $357 at December 31, 2023, $571 at December 31, 2022 and $772 at December 31, 2021. These investments are rated AAA, as they are guaranteed by the full faith and credit of the United States government.

In view of the recent economic conditions and volatility related to these types of securities, the Association is actively monitoring the creditworthiness of these securities. These securities are supported by various forms of credit enhancements including insurance guarantees from AAA rated insurers, over-collateralization and favorable priority of payments. Based on our evaluations, we believe these securities do not pose a significant risk of loss given the credit enhancements and relatively short weighted average lives. However, in the event a security is downgraded, we may be required by our regulator to dispose of the security. At December 31, 2023, the Association held no Rural America Bonds whose credit quality had deteriorated beyond the program limits.

Investment securities classified as being held-to-maturity totaled $1,781 at December 31, 2023, $2,040 at December 31, 2022 and $2,286 at December 31, 2021. These held-to-maturity investments consist of pools of loans with United States government guarantees.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – purpose of the loan and prevailing industry / economic outlook

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Long term mortgage real estate loans must be collateralized by title insured first mortgage liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a long term basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The Association's collateral standards normally result in actual loan to appraised value lower than the statutory maximum percentage. Appraisals are required for non-business purpose loans of more than $250,000 or for business purpose loans of more than $1 million. At origination, each loan is assigned a credit risk rating based upon the Association's loan underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

The Association reviews the credit quality of the loan portfolio on an ongoing basis as part of its risk management practices. Each loan is classified according to the Combined System Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit a well-defined 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 presents selected statistics related to the credit quality of loans at December 31.

Credit Quality	2023	2022	2021
Acceptable & OAEM	99.09%	98.45%	97.98%
Substandard	0.91%	1.55%	2.02%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Portfolio credit quality improved during 2023 as a result of a decline in substandard accrual assets and growth in acceptable assets. The primary decrease in substandard accrual loans is due to liquidations and principal reductions from collateral sales in the other (fish) and tree, fruits and nuts commodity groups.

Nonperforming Assets

The Association's loan portfolio is divided into performing and nonperforming categories. The Special Assets Management Department is responsible for servicing loans classified as nonperforming. The nonperforming assets are detailed in the following table:

	December 31,		
Nonperforming Assets	2023	2022*	2021*
	(dollars in thousands)		
Nonaccrual loans	$ 6,870	$ 1,173	$ 4,649
Accruing restructured loans	n/a	258	613
Accruing loans 90 days or more past due	–	–	–
Total nonperforming loans	6,870	1,431	5,262
Other property owned	–	–	–
Total nonperforming assets	$ 6,870	$ 1,431	$ 5,262
Ratios:			
Nonaccrual loans to total loans	0.44%	0.08%	0.33%
Nonperforming assets to total assets	0.42%	0.09%	0.36%

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

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $5,697 or 485.68 percent in 2023 after having decreased $3,476 or 74.77 percent in 2022. The primary increase in 2023 resulted from transfers into nonaccrual in the tree fruits and nuts and field crops commodity groups. Transfers into nonaccrual were offset by repayments and liquidations in the nursery/fern commodity group. The primary decrease in 2022 resulted from repayments and liquidations in the dairy, nursery/fern and equine commodity groups. Tree fruits and nuts commodity group represents the largest percentage of total nonaccrual loans at approximately 67 percent at December 31, 2023 with a majority concentrated in one account. Of the $6,870 in nonaccrual volume at December 31, 2023, $1,823 or 26.54 percent, compared to 98.98 percent and 65.09 percent at December 31, 2022 and 2021, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

At December 31, 2023 and December 31, 2022, there were no properties or equipment included in other property owned. During 2023, there were 3 pieces of equipment acquired and sold during the year.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to estimate the current expected credit losses over the remaining contractual life for loans measured at amortized cost.

The following table presents the activity in the allowance for loan losses for the most recent three years:

	Year Ended December 31,		
Allowance for Loan Losses Activity:	**2023**	**2022***	**2021***
	(dollars in thousands)		
Balance at beginning of year	$ 8,685	$ 9,078	$ 10,043
Cumulative effect of a change in accounting principle	(790)	–	–
Charge-offs:			
Real estate mortgage	–	–	(13)
Production and intermediate-term	(3,974)	(60)	(16)
Rural Residential Real Estate	–	–	–
Total charge-offs	(3,974)	(60)	(29)
Recoveries:			
Real estate mortgage	58	110	446
Production and intermediate-term	497	606	197
Rural Residential Real Estate	23	29	1
Total recoveries	578	745	644
Net (charge-offs) recoveries	(3,396)	685	615
Provision for (reversal of allowance for) loan losses	4,867	(1,078)	(1,580)
Balance at end of year	$ 9,366	$ 8,685	$ 9,078
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.219)%	0.048%	0.045%

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

The loan recoveries were primarily associated with the non-farm income commodity group in 2023, the dairy commodity group in 2022, and the nursery/greenhouse and non-farm income commodity groups in 2021. Due to the improvement in collateral values and return of credit availability in the market, several nonaccrual loans within these commodity groups were fully collected during the year. The charge-offs were primarily associated with the tree fruits and nuts commodity group in 2023, the dairy commodity group in 2022, and the field crops commodity group in 2021. The Association recorded a provision for loan losses of $4,867 in 2023 primarily attributed to higher reserves required on loans individually evaluated primarily in the tree fruits and nuts commodity group. The Association was able to reverse $1,078 and $1,580, respectively, of the allowance for loan losses in 2022 and 2021 due to lower specific reserves required on nonperforming loans, lower reserves required from improvement in credit quality along with recoveries received of amounts previously charged-off.

The allowance for loan losses by loan type for the most recent three years is as follows:

	December 31,		
Allowance for Loan Losses by Type	**2023**	**2022**	**2021**
	(dollars in thousands)		
Real estate mortgage	$ 4,674	$ 2,936	$ 3,166
Production and intermediate-term	2,845	3,883	4,038
Agribusiness	1,361	1,520	1,541
Rural Infrastructure	343	265	249
Rural residential real estate	126	69	74
Other	17	12	10
Total Allowance for Loan Losses	$ 9,366	$ 8,685	$ 9,078

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	December 31, 2023	2022	2021
Total loans	0.59%	0.57%	0.65%
Total nonperforming loans	136.33%	606.92%	172.52%
Nonaccrual loans	136.33%	740.41%	195.27%

Please refer to Note 3, *Loans and Allowance for Credit Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2023, totaled $27,839, a decrease of $6,784 or 19.59 percent, as compared to net income of $34,623 for the same period of 2022 and a decrease of $12,065 or 30.24 percent, as compared to net income of $39,904 for the same period of 2021. The decrease in net income for the year ending 2023 as compared to 2022 is primarily attributed to an increase in provision for allowance for credit losses and a decrease in noninterest income offset by an increase in net interest income.

Net Interest Income

Net interest income was $45,359, $39,706 and $35,206 in 2023, 2022 and 2021, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
	(dollars in thousands)			
12/31/23 – 12/31/22				
Interest income	$ 5,918	$ 22,641	$ (1,543)	$ 27,016
Interest expense	3,074	18,289	–	21,363
Change in net interest income	$ 2,844	$ 4,352	$ (1,543)	$ 5,653
12/31/22 - 12/31/21				
Interest income	$ 3,478	$ 8,359	$ 576	$ 12,413
Interest expense	1,344	6,569	–	7,913
Change in net interest income	$ 2,134	$ 1,790	$ 576	$ 4,500

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods*

Net interest income increased by $5,653 or 14.24 percent in 2023 compared to 2022 and increased by $4,500 or 12.78 percent in 2022 compared to 2021. The primary reason for the increase during 2023 compared to 2022 is due to an increase in average loan volume outstanding during 2023 along with an increase in interest income on variable rate loans from increasing of the target range for the federal funds rate by the Federal Reserve during 2023. The increase in net interest income during 2023 results from an increase of $2,844 attributed to an increase in volume, an increase of $4,352 attributed to an increase in rates, offset by a decrease of $1,543 in nonaccrual income.

The primary reason for the increase in net interest income during 2022 compared to 2021 is due to an increase in average loan volume outstanding during 2022, an increase in interest income on variable rate loans from increasing of the target range for the federal funds rate by the Federal Reserve during 2022 along with an increase in nonaccrual income.

Provision for Allowance for Credit Losses

Provision for allowance for credit losses for the year ended December 31, 2023, totaled $4,917, an increase in expense of $5,995 or 556.12 percent, as compared to a reversal of allowance for credit losses of $1,078 for the same period of 2022 and an increase in expense of $6,497 or 411.20 percent, as compared to a reversal of allowance for credit losses of $1,580 for the same period of 2021. The provision for credit losses in 2023 is attributed to higher reserves required on loans individually evaluated and the reversal of the allowance for credit losses in 2022 and 2021 was due to lower specific reserves required on nonperforming loans, lower reserves required from improvement in credit quality along with recoveries received of amounts previously charged-off.

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended December 31, 2023	2022	2021	Percentage Increase/(Decrease) 2023/2022	2022/2021
	(dollars in thousands)				
Loan fees	$ 1,084	$ 1,334	$ 1,395	(18.74) %	(4.37)%
Fees for financially related services	3,738	4,574	4,578	(18.28)	(0.09)
Patronage refunds from other Farm Credit institutions	12,535	16,030	23,589	(21.80)	(32.04)
Gains (losses) on sales of rural home loans, net	189	393	818	(51.91)	(51.96)
Gains (losses) on sales of premises and equipment, net	25	4	94	525.00	(95.74)
Gains (losses) on other transactions	(538)	(192)	99	180.21	(293.94)
Other noninterest income	116	357	417	(67.51)	(14.39)
Total noninterest income	$ 17,149	$ 22,500	$ 30,990	(23.78) %	(27.40)%

The decrease in noninterest income of $5,351 or 23.78 percent in 2023 compared to 2022 is primarily due to a decrease in patronage refunds from other Farm Credit institutions.

Fees for financially related services decreased $836 or 18.28 percent in 2023 compared to 2022 due to lower crop insurance income. There was a decline in crop insurance bonus income in 2023 due to an increase in insurance claims from hurricane damage to crops in 2023.

Patronage refunds from other Farm Credit Institutions decreased $3,495 or 21.80 percent largely due to a decrease in the special patronage dividend from the Bank of $5,328. The special patronage dividend from the Bank was $912 in 2023 compared to $6,240 in 2022 and $14,428 in 2021.

Losses on other transactions increased $346 or 180.21 percent in 2023 compared to 2022 resulting from a large substandard loan participation contracted for sale at a loss in 2023.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended December 31, 2023	2022	2021	Percentage Increase/(Decrease) 2023/2022	2022/2021
	(dollars in thousands)				
Salaries and employee benefits	$ 21,172	$ 20,242	$ 20,819	4.59 %	(2.77)%
Occupancy and equipment	1,319	1,290	1,282	2.25	0.62
Insurance Fund premiums	2,154	2,165	1,640	(0.51)	32.01
Purchased services	946	737	906	28.36	(18.65)
Data processing	171	207	225	(17.39)	(8.00)
Other operating expenses	4,023	4,020	3,027	0.07	32.80
(Gains) losses on other property owned, net	(33)	–	(27)	100.00	(100.00)
Total noninterest expense	$ 29,752	$ 28,661	$ 27,872	3.81 %	2.83 %

Non-interest expense increased $1,091 or 3.81 percent for the year ended December 31, 2023, as compared to the same period in 2022, and increased $789 or 2.83 percent in 2022 compared to 2021.

Salaries and employee benefits increased $930 or 4.59 percent in 2023 as compared to 2022. This increase is primarily attributable to an increase in the number of employees in 2023. The $29 or 2.25 percent increase in occupancy and equipment expense in 2023 compared to 2022 is due to an increase in furniture and equipment costs and facilities maintenance expenses.

Insurance Fund premiums decreased $11 or 0.51 percent for the twelve months ended December 31, 2023, compared to the same period of 2022. This decrease is primarily attributed to a decrease in the insurance premium charged by the Farm Credit System Insurance Corporation in 2023 compared to 2022.

Purchased services increased $209 or 28.36 percent in 2023 as compared to 2022 due to increases in legal fees and audit expenses. The $36 or 17.39 percent decrease in data processing expense in 2023 compared to 2022 is due to a decrease in information technology related equipment costs. Other operating expenses increased $3 or 0.07 percent in 2023 as compared to 2022 due to higher in-person employee travel, industry events, and training costs.

Gains on other property owned increased $33 or 100.00 percent due to increased amount other property owned equipment sold during 2023 compared to 2022.

Income Taxes

The Association recorded no provision for income taxes during 2023, 2022 or 2021. Refer to Note 2, *Summary of Significant Accounting Policies, I. Income Taxes*, and Note 12, *Income Taxes,* of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	**For the 12 Months Ended 12/31/23**	**12/31/22**	**12/31/21**
Return on average assets	1.75%	2.37%	2.89%
Return on average members' equity	7.88%	10.33%	12.80%
Net interest income as a percentage of average earning assets	2.92%	2.77%	2.60%
Net (charge-offs) recoveries to average loans	(0.219)%	0.048%	0.045%

Return on average assets and return on average members' equity decreased during 2023 compared to 2022 as a result of decreased net income in 2023 compared to 2022. The net interest income as a percentage of average earning assets, or net interest margin, increased 15 basis points in 2023 from 2022 due to the increase in interest income on variable rate loans resulting from increasing of the target range for the federal funds rate in 2023.

The past years have been favorably impacted by a special patronage dividend from AgFirst Farm Credit Bank which totaled $912 in 2023, $6,240 in 2022 and $14,428 in 2021. The Association does not forecast continued receipt of these distributions.

A key factor in the growth of net income for future years will be continued increases in acceptable loan volume, improvement in net interest income, controlling loan losses, and effectively managing noninterest expense. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue the improvement shown in recent years and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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 Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. 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. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2023, was $1,246,767 as compared to $1,178,379 at December 31, 2022 and $1,094,413 at December 31, 2021. The 2023 increase of $68,388 or 5.80 percent compared to December 31, 2022 was a result of an increase in total asset growth offset by an increase in members' equity attributable to net income. The average volume of outstanding notes payable to the Bank was $1,211,210 and $1,106,376 for the years ended December 31, 2023 and 2022, respectively. Refer to Note 6, *Debt, Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in the Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations.

The Association had no lines of credit from third party financial institutions as of December 31, 2023.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the Secured Overnight Financing Rate (SOFR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank and the Bank's ability to access capital of the Association is discussed in Note 4, *Investments, Equity Investments in Other Farm Credit Institutions*, and Note 6, *Debt, Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements included in this Annual Report

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 6, *Debt, Notes Payable to AgFirst Farm Credit Bank*, included in this annual report.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2023 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2023, increased 4.07 percent to $351,244 from the December 31, 2022, total of $337,495. At December 31, 2022, total members' equity increased 5.53 percent from the December 31, 2021 total of $319,807. The increase during 2023 was primarily attributed to 2023 net income from operations of $27,839 less the $14,500 patronage distribution declared. Total capital stock and participation certificates were $2,844 on December 31, 2023, compared to $2,882 on December 31, 2022 and $3,413 on December 31, 2021. The decrease in 2023 and 2022 is due to retirement of capital stock on loans liquidated in the ordinary course of business.

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

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	18.55%	19.16%	19.45%
Tier 1 Capital	6.0%	2.5%	8.5%	18.55%	19.16%	19.45%
Total Capital	8.0%	2.5%	10.5%	19.27%	19.69%	20.06%
Permanent Capital	7.0%	0.0%	7.0%	18.67%	19.26%	19.56%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	20.95%	21.83%	22.13%
URE and UREE Leverage	1.5%	0.0%	1.5%	17.21%	17.86%	18.01%

* *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. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios.

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.

See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $14,500 in 2023, $16,500 in 2022, and $17,500 in 2021.

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to support rural communities and agriculture with reliable, consistent credit, which includes providing credit to Young*, Beginning** and Small*** farmers, ranchers, producers or harvesters of aquatic products (YBS Farmers and Ranchers). Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual lending goals to increase our market share of loans to YBS Farmers and Ranchers. Specific marketing plans are developed to target this segment, and resources are designated to help ensure YBS Farmers and Ranchers have access to a stable source of credit and financially related services. Although the Association was generally within 80% to meeting new volume goals for Beginning and Small farmers and ranchers, the Association fell short in number of new loans and volume for all YBS categories.

2023 YBS Goals and Results

	2023 Goal	2023 Actual	% of Goal
Young Farmers & Ranchers			
Number of New loans	130	70	53.85%
New Volume	$38,100	$15,094	39.62%
Beginning Farmers & Ranchers			
Number of New loans	290	193	66.55%
New Volume	$78,800	$61,614	78.19%
Small Farmers & Ranchers			
Number of New loans	395	229	57.97%
New Volume	$73,500	$60,753	82.66%

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

December 31, 2023 Total YBS Loan Data

Total Loans & Commitments	12/31/23	% of Total
Number of Loans	3,127	100.00%
Volume Outstanding	$1,939,815	100.00%
Young Farmers & Ranchers		
Number of Loans	411	13.14%
Volume Outstanding	$110,685	5.71%
Beginning Farmers & Ranchers		
Number of Loans	1,134	36.26%
Volume Outstanding	$304,071	15.68%
Small Farmers & Ranchers		
Number of Loans	1,528	48.86%
Volume Outstanding	$259,489	13.38%

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2017 USDA Ag Census data is used as the benchmark to measure penetration of the Association's marketing efforts. The census data indicates that within the Association's chartered territory of thirty-six counties, there are 43,639 farmers of which, by definition, 3,215 or 7.8% are Young, 13,394 or 30.7% are Beginning, and 39,776 or 90.7% are Small. Related to the total number of borrowers in the Association, Young Farmers and Ranchers represent 296 or 13.4% of the total, Beginning Farmers and Ranchers represent 839 or 37.9% of the total and Small Farmers and Ranchers represent 1,161 or 52.4% of the total. Similarly, of the total number of Farmers and Ranchers reported as Young (296), Beginning (839) and Small (1,161) within the Association's territory, the Association has a segment penetration percent of 9.2%, 6.3% and 2.9% respectively.

The YBS Plan contains several components including staffing, identification, education, development, and direct financial support. Staffing and education represents the foundation of the program as the Association recognizes that to serve the community; its staff must understand the culture and needs of each group and to provide programs that not only assist this segment in getting into agriculture, but also assure this segment remains in agriculture. The Association has focused on diversity in its employment practices because we believe strongly that our staff should reflect the diversity of the community we serve. The Association has a staff member that provides educational opportunities and has trained all lending staff to serve the YBS Community. Specific quantitative and qualitative goals are annually established for the YBS Program to ensure our performance in reaching this segment of our market.

Identification and outreach are also critical components of the program. The Association constantly monitors public record databases, organizational membership rolls, etc. that are available and could assist in identification of potential YBS Farmers and Ranchers. In addition, staff is active in community, trade and cultural organizations believed to have membership that include potential YBS Farmers and Ranchers. The Association works with agricultural trade organizations and Federal, State and County Agricultural Agencies, to ensure these organizations and agencies understand our YBS programs and will refer YBS Farmers and Ranchers with credit or financially related service needs to the Association. The Association has also worked with these organizations and agencies in providing training and development opportunities for YBS Farmers and Ranchers. The Association aggressively attempts to collaborate with these organizations and agencies in joint programs. The Association is a "Preferred Lender" in the USDA Guaranteed Lending Program.

A final component of the program is in the area of youth development programs. The Association actively supports those organizations such as FFA, 4-H, and other youth based programs that are training and developing the farmers and ranchers of the future.

The Association is committed to the future success of Young, Beginning and Small farmers, ranchers, producers or harvesters of aquatic products.

* Young Farmers and Ranchers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the loan transaction date.
** Beginning Farmers and Ranchers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the loan transaction date.
*** Small Farmers and Ranchers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 thousand in annual gross sales of agricultural or aquatic products.

Slight differences between the Census and our YBS information are as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association's YBS information shows young farmers up to age 35.
- The Census shows years on present farm up to nine years, whereas the Association's YBS information shows 10 years or less for a beginning farmer.
- The Census data is based on number of farms, whereas the Association's YBS information is based on number of loans.

REGULATORY MATTERS

On February 8, 2024, the FCA approved a final rule to amend its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) exposures by assigning a 150% risk-weighting to such exposures, instead of the current 100%. The rule would further align the FCA's risk-weightings with federal banking regulators and recognizes the increased risk posed by HVCRE exposures. The final rule excludes certain acquisition, development and construction loans that do not present as much risk and therefore do not warrant the risk weight for HVCRE. In addition, the final rule adds an exclusion for loans originated for less than $500,000. The final rule will become effective on January 1, 2025.

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

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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies,* in the Notes to the Consolidated Financial Statements for recently adopted accounting pronouncements.

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 - Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The enhanced rate reconciliation will require tabular reporting by amount and percentage for specifically defined reconciling items as well as additional information for reconciling items that meet a quantitative threshold of greater than five percent of the amount computed by multiplying pre-tax income by the applicable statutory income tax rate. Income taxes paid will require disaggregated disclosure by federal, state and foreign jurisdictions for amounts exceeding a quantitative threshold of greater than five percent of total income taxes paid. The guidance will also eliminate the requirement to disclose an estimate of the range of the reasonably possible change in the unrecognized tax benefits balances in the next 12 months. The amendments in this guidance are effective for public business entities for annual periods beginning after December 15, 2024 and should be applied on a prospective basis, although retrospective application is permitted. Early adoption is also permitted for annual financial statements that have not yet been issued or made available for issuance. The adoption of this guidance is not expected to have a material impact on the Association's financial condition, results of operations or cash flows.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations*, of the Consolidated Financial Statements included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* included in this Annual Report.

Unincorporated Business Entities

The Association holds an equity investment in certain Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC).

The Association has an equity investment in a Rural Business Investment Company, Meritus Ventures, L.P, a Delaware Limited Partnership. Meritus Ventures, L.P. is licensed under the Rural Business Investment Program and provides guarantees and grants to promote rural economic development and job opportunities and supplies equity capital investment to small rural enterprises. The Association has a 4.12% ownership in the limited partnership. Additional information may be found in Note 4, *Investments,* of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Florida:

Location	Description	Form of Ownership
11903 Southern Blvd. West Palm Beach	Administrative/ Branch	Owned
12300 NW US Hwy 441 Alachua	Branch	Owned
330 N. Brevard Avenue Arcadia	Branch	Owned
24700 SW 177th Avenue Homestead	Branch	Owned
870 W. Hickpochee Ave, Units 1300 and 1400 LaBelle	Branch	Leased*
15 N. Oak Avenue Lake Placid	Branch	Leased**
1606 Canyon Avenue Live Oak	Branch	Owned
5075 NW Blitchton Road Ocala	Branch	Owned
403 NW 6th Street Okeechobee	Branch	Owned
309 North 2nd Street Palatka	Branch	Owned
721 South Main Street Trenton	Branch	Owned
7925 20th Street Vero Beach	Branch	Owned
1311 Highway 17 North Wauchula	Branch	Owned

** Lease term expires May 31, 2027*
*** Lease term expires October 31, 2024*

The owned offices at 11903 Southern Boulevard are Administrative offices located in Suites 110, 200, 208, 212, 214, and 216, and a Branch office located in Suite 200. Owned suites 102, 106, and 114 are leased to a tenant.

The Association currently owns a lot adjacent to the Arcadia branch located at 314 N. Brevard Avenue, Arcadia, Florida.

The Branch located at 340 N. Brevard Avenue, Arcadia, Florida, is now vacant as branch staff have been relocated. The Board of Directors is currently considering the next use, if any, for this building.

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 11, *Commitments and Contingencies*, of the Consolidated Financial Statements included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 7, *Members' Equity*, of the Consolidated Financial Statements included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 11 of the Consolidated Financial Statements included in this Annual Report.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years:

Senior Officer	Position & Other Business Interests
Marcus A. Boone	*President and Chief Executive Officer* since January 2022 and Chief Lending Officer since April 2013, previously employed as Vice President of the Association Direct Lending Unit at Farm Credit Bank of Texas since 2006.
Clinton Bower	*Executive Vice President* and Chief Lending Officer* since April 2022, previously employed as Senior Vice President, Chief Business Development Officer at Farm Credit of New Mexico since May 2017.
Deborah Caldeira	*Executive Vice President* and Chief Human Resources Officer* since March 2016 and Director of Human Resources since December 2012, previously employed as Vice President, Manager of Employment & Employee Relations at BankAtlantic since 2005.
Laura Craker	*Executive Vice President* and Chief Financial Officer* since June 2012. Previously employed by community banks as a Chief Financial Officer and Director of Accounting since 2005.
April Dawn Goodspeed	*Executive Vice President* and Chief Technology Officer* since January 2023 and Chief Operations and IT Officer since April 2017 and Director of Loan Operations and Information Technology since 2015, with Farm Credit since 1989.
Roland Kampf	*Executive Vice President* and Chief Risk Officer* since February 2016 and Director of Risk Management since February 2013 and Risk Manager since April 2012, previously employed as Chief Risk Officer and Chief Credit Officer at AgCarolina Financial since 2000, with Farm Credit since 1991.
Ashley Layson	*Senior Vice President and Chief Marketing Officer* since April 2017 and Director of Marketing since September 2013, previously employed as Marketing & Public Relations Director at Alabama Ag Credit since 2008. Serves on the Board of Florida Specialty Crop Foundation, a subsidiary of The Florida Fruit and Vegetable Association.
Jonathan Ray	*Executive Vice President* and Chief Operating Officer* since January 2023 and Chief Credit Officer since September 2019, with Farm Credit since 2016, previously employed as Vice President, Credit Risk Manager at Regent Bank since 2010.

**Promoted to Executive Vice President from Senior Vice President effective July 2022*

The total amount of compensation earned by the CEO and highest paid officers as a group during the years ended December 31, 2023, 2022 and 2021, is as follows:

Name of Individual or Number in Group	Year	Annual Salary	Annual Bonus	Change in Pension value*	Perq./ Other	Total
CEO:						
Marcus A. Boone	2023	$ 425,000	$ 127,500	$ 41,673	$ 17,838	$ 612,011
Marcus A. Boone	2022	$ 375,000	$ 131,252	$ (120,485)	$ 19,806	$ 405,573
Past CEO:						
Robert W. Teston	2021	$ 400,011	$ 160,000	$ –	$ –	$ 560,011
Senior Officers and Highly Compensated Employees:						
9	2023	$ 1,645,040	$ 260,258	$ 323,219	$ 68,438	$ 2,296,955
9	2022	$ 1,650,561	$ 388,748	$ (803,181)	$ 110,792	$ 1,346,920
8	2021	$ 1,725,059	$ 414,135	$ 86,739	$ 99,018	$ 2,324,951

** Change in the expected future benefit payment stream based on actuarial assumptions. Does not represent any actual cash compensation provided to any employee.*

Pension Benefits Table
As of December 31, 2023

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits **	Payments During 2023
CEO:					
Marcus A. Boone	2023	AgFirst Farm Credit Retirement Plan	25.8	$ 708,990	$ –
Senior Officers and Highly Compensated Employees:					
2 Officers, excluding the CEO	2023	AgFirst Farm Credit Retirement Plan	36.1*	$ 3,852,282	$ –

** Represents the average years of credited service for the group*
*** The value of expected future benefit payment stream based on actuarial assumptions. Does not represent any actual cash compensation provided to any employee. Actual funds received can differ based on how actual events compare to assumptions used in the calculation.*

Disclosure of information on total compensation paid during 2023 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Amounts in the table classified as Perquisites/Other are comprised primarily of automobile allowance, group life insurance, spousal travel, paid accumulated annual leave, relocation, and severance upon retirement or separation. It also includes amounts contributed by the Association on behalf of the employee to a retirement benefit plan unless the plan is made available to all employees on the same basis.

In addition to a base salary, all employees earn additional compensation under an incentive plan. The Association incentive plan is designed to focus employees on the factors that produce success for the Association and its shareholders, and to reward employees for contributing to the Association exceeding its goals. The factors incorporated in the 2023 plan include return on assets, credit quality, credit administration, accrual loan volume growth, efficiency ratio, and net income.

All Association employees, with the exception of the Chief Executive Officer are eligible for incentives under the plan. Participation is not allowed for employees terminating employment prior to the payment of the incentive except for retirement, disability or death which may be paid at the discretion of the CEO or persons having unsatisfactory performance evaluations. New employees receive a pro rata share and must be employed for a minimum of three months to participate in the current year's plan. The incentive earned is based on percentage of salary earned during the year and is calculated based on a matrix of four performance factors and four performance tiers up to a maximum percentage cap. Allowable incentives ranged up to 25 percent of salary paid for senior managers and up to 15 percent of salary paid for other employees depending upon their position.

For loan officers, an additional incentive award opportunity is available to those who perform in excess of a minimum % of their goal as defined by their position. The pool for Loan Officers is funded if the performance objectives of the plan are achieved. However, individual awards ranging up to 20 percent of salary paid will be determined by loan production and fee income goals achieved by that loan officer.

The incentive plan also includes referral awards to employees for qualified referrals to other lines of business. The plan allows for Board approval of adjustments to the plan payouts for extraordinary events.

All Association employees, except for the CEO who administers the awards, are eligible to receive discretionary awards based on special or exemplary performance as recommended by another employee, the employee's supervisor or directly by the CEO. The discretionary award pools are approved by the Board annually.

The Chief Executive Officer's bonus is at the discretion of the Board of Directors. Bonuses are shown in the year earned, which may be different than the year of payment.

Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

All employees are eligible to receive awards based on (a) years of service on five year, or multiple of five year anniversaries and (b) new hire referrals.

The Association provides retirement benefit plans to all employees. Employees' participation in a plan is mostly determined by date of hire. Additional information on the Association's retirement plans can be found in Note 9, *Employee Benefit Plans,* of the Notes to the Consolidated Financial Statements.

The Association sponsors a non-qualified supplemental deferred compensation plan for eligible employees. The purpose of the non-qualified plan is to provide supplemental deferred compensation options to eligible key employees. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

The "Actuarial Present Value of Accumulated Benefits" column in the *Pension Benefits Table* is the value at a specific date of the benefit payment stream an individual is expected to receive upon retirement based on pay and service earned to date. These present values change year over year as (1) pension benefits increase due to an additional year of pay and service being earned under the benefit formula, (2) individuals are one year older and one year closer to receiving payments, and (3) the assumptions used to determine the present value change.

The present value of pension benefits will naturally increase as the benefits earned under the plan increase. Since the pension benefit formula is dependent on base pay, pay increases directly impact the pension values.

The present value is calculated by discounting each expected future benefit payment back to the determination date at a specified interest (or discount) rate. When a year passes, there is one less year of discounting, which increases the present value. For those already eligible for unreduced retirement (e.g. have 85 age + service points), this increase is offset by the decrease in early retirement subsidy value. The early retirement subsidy provided under the plan is most valuable when a participant first reaches eligibility for unreduced benefits. The value decreases every year thereafter until age 65.

Finally, the present value of the expected future benefit payment stream is based on actuarial assumptions, chiefly the discount rate mentioned above. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values. The discount rate is updated every year based on the interest rate environment at December 31. A decrease in the discount rate (i.e. less discounting) increases the present values and vice versa. There was a decrease in the discount rate assumption from December 31, 2022 to December 31, 2023, which increased the pension values.

Chief Executive Officer

Mr. Boone participates in the AgFirst Farm Credit Retirement Plan, the Farm Credit Benefits Alliance 401 (k) Plan and the Farm Credit Benefits Alliance Nonqualified Supplemental 401 (k) Plan. Mr. Boone's participation in the AgFirst Farm Credit Retirement Plan is attributed to his service with another Farm Credit Association. Additional information on the Association's retirement plans can be found in Note 9, *Employee Benefit Plans,* of the Notes to the Consolidated Financial Statements.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, and total cash compensation paid:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2023
Bobby G. Lines, *Chairman*	2014	2024	$ 38,431
Wayne H. Simmons, *Vice Chairman*	2014	2026	37,570
John L. Alger	2007	2024	33,855
Tobin J. Basore	2014	2026	37,640
Howard P. Bateman	2004	2025	31,828
Roger W. Davis	1998	2025	32,162
W. Eric Hopkins, *Appointed Stockholder Director*	2014	2026	37,139
Joseph C. Joyce, *Outside Director*	2008	2025	33,195
Martin J. McKenna	2009	2024	31,104
John R. Newbold, III	2014	2026	32,432
Harrell H. Phillips, Jr.	2015	2026	32,821
Francisco J. Pines, *Outside Director*	2022	2026	30,985
Robert G. Sexton	1995	2025	30,347
Alisa Sherman, *Appointed Stockholder Director*	2014	2026	36,187
Donald G. Tanner, Jr.	2021	2024	32,521
Amanda E. Taylor, *Outside Director*	2022	2024	32,155
			$ 540,372

Subject to approval by the board, the Association may allow directors honoraria of $600 per day for attendance at regular board meetings and board committee meetings. If a committee meeting is held on a day other than the board meeting date, the Association may allow directors honoraria of $600 for attendance. If a committee meeting is held via conference call, the Association may allow directors honoraria of $300 for attendance. If a director is requested by the board to attend a special meeting, other than a regular board or committee meeting, the Association may allow directors honoraria of $600 per day. Directors are paid a monthly retainer fee of $1,200, except for the chairman and vice chairman of the board who receive $2,000 and $1,450, respectively. Committee chairs are paid an additional monthly retainer of $600 for Audit and $150 for Credit and Lending, Governance, and Compensation. The Board Cybersecurity Specialist receives an additional monthly retainer of $150. Directors are paid for their travel time to regular board or committee meetings calculated based on 50 cents per mile for number of miles traveled. Non-cash compensation for the year was less than $5,000.

The following chart details the number of meetings, other activities, current committee assignments, and additional compensation paid for other activities (if applicable) for each director:

	Days Served			
Name of Director	Regular Board Meetings	Other Official Activities*	Committee Assignments	Comp. Paid for other Activities*
Bobby G. Lines, *Chairman*	12	11	Executive	$ 9,300
Wayne H. Simmons, *Vice Chairman*	13	22	Credit/Lending, Executive, Governance	12,300
John L. Alger	12	20	Audit, Credit/Lending	11,400
Tobin J. Basore	13	22	Credit/Lending, Governance	15,600
Howard P. Bateman	13	20	Audit, Governance	10,500
Roger W. Davis	13	16	Compensation, Credit/Lending	9,900
W. Eric Hopkins	13	9	Compensation, Executive, Governance	9,300
Joseph C. Joyce	13	17	Audit, Compensation	11,100
Martin J. McKenna	12	18	Credit/Lending, Governance	9,900
John R. Newbold, III	13	18	Audit, Compensation, Executive	9,600
Harrell H. Phillips, Jr.	13	17	Compensation, Executive, Governance	9,300
Francisco J. Pines	12	15	Compensation, Credit/Lending	9,000
Robert G. Sexton	10	20	Audit, Governance	10,500
Alisa Sherman	12	18	Audit, Compensation, Executive	10,500
Donald G. Tanner, Jr.	13	20	Audit, Credit/Lending	9,600
Amanda E. Taylor	13	20	Audit, Credit/Lending	9,900
				$ 167,700

** Includes board committee meetings and other board activities other than regular board meetings*

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $214,610 for 2023, $260,384 for 2022 and $83,677 for 2021.

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

Bobby G. "Bob" Lines, Chairman, is a cattle rancher, as well as a Bahia sod and seed producer in Palm Beach, Martin, and Okeechobee Counties. Mr. Lines co-owns and operates Agricultural Land Services, Inc. and Lines Ag Properties, LLC. He is a grassing contractor that provides sodding and seeding services to various government projects. Additionally, he supervises 4L Land & Cattle, LLC which is a beef cattle cow-calf operation. He is also a past Director and past President of the Florida Quarter Horse Association and is a current National Director Emeritus of the American Quarter Horse Association. Mr. Lines was originally appointed to the Farm Credit of Florida board in 2015 for a term that expired in 2016, and his current term of office is 2021 - 2024. Mr. Lines serves as chair of the Executive Committee.

Wayne H. Simmons, Vice Chairman, is a citrus grower, certified crop advisor, timber farmer, realtor, and rental property owner from LaBelle, Florida. He is an owner and President of Simmons Family Grove, Inc. He is an owner and manager of LaBelle Fruit Company, LLC, LaBelle Housing Company, LLC and LaBelle Timber Company, LLC. Mr. Simmons is a Broker Associate of Southern Heritage Real Estate and Investments, and with Greene Forest & Farm Realty, LLC. He is a Director and President of the Gulf Citrus Growers Association. Mr. Simmons is a Director of Florida Citrus Mutual, and a member of Florida Gulf Coast University Agriculture Advisory Committee. Mr. Simmons is a past Director of the Citrus Research and Development Foundation. He is also a member of the Hendry County Farm Bureau and the Realtors Land Institute. Mr. Simmons serves on the Board of the National Agricultural Research, Extension, Education and Economics Advisory Board – Citrus Disease Subcommittee. Mr. Simmons was elected to the Farm Credit of Florida board in 2014 and his term of office is 2023 - 2026. He also serves on the AgFirst District Advisory Committee. Mr. Simmons serves as chair of the Credit/Lending Committee and is a current member of the Governance and Executive Committees.

John L. Alger is a vegetable grower and nurseryman in Miami-Dade County and is President of Alger Farms, Inc. He is an owner, President and Director of S. M. Jones and Company, Inc., a produce sales company in Belle Glade, and HAB Packing, LLC, a vegetable packing company in Brinson, Georgia. Mr. Alger is also on the board of Florida Fruit and Vegetable Association, and a member of the Baptist Health South Florida Founders Society, the University of Miami UHealth Champions, the Biscayne Bay Watershed Management Advisory Board, and the Dade County Farm Bureau. Mr. Alger was elected to the Farm Credit of South Florida board in 2007 and his current term of office is 2021 - 2024. He is a current member of the Audit and Credit/Lending Committees.

Tobin J. "Toby" Basore is a vegetable grower in Western Palm Beach County. He is an owner and manager of TKM Bengard Farms, LLC, a vegetable grower and packing company, and Cypress Cooling, LLC, a vegetable cooling and shipping company. He is an owner and President of TKM Farms, Inc., a vegetable grower and packing company and an owner and senior officer of TKM Management, Inc. He is a Director of the Florida Fruit and Vegetable Association (and serves as Director and past Chairman of the Florida Vegetable

Exchange), and a past Director of the Wedgworth Leadership Institute Alumni Association, a graduate of the Wedgworth Leadership Institute and a member and past Director of the Leadership Palm Beach County organization. Mr. Basore was elected to the Farm Credit of Florida board in 2014 and his current term of office is 2023 - 2026. He is a current member of the Credit/Lending and Governance Committees. He also serves on the AgFirst Legislative Advisory Committee.

Howard P. "Rowdy" Bateman has interests in a family cattle operation, as well as his own cattle operation and is President of Bateman Family Partnership, Inc. and is Managing Member of I S Ranch, LLC. He was elected to the Farm Credit of Southwest Florida board in 2004 and his current term of office is 2022 - 2025. Mr. Bateman is a current member of the Audit and Governance Committees.

Roger W. Davis is a tobacco, corn, timber farmer, and cattle rancher based in Alachua County. He is owner, President and Director of R & H Farms, Inc. He owns CWH Land, LLC and RFD Land, LLC, and is an owner and Managing Partner of 848 Land, LLC. He is a member of the SHARE Council at the University of Florida and a member of Florida Farm Bureau. Mr. Davis was elected to the Farm Credit of North Florida board in 1998 and his current term of office is 2022 - 2025. He is a current member of the Compensation and Credit/Lending Committees.

W. Eric Hopkins, is a sugarcane and vegetable grower in Western Palm Beach County, employed by, and part owner of, Hundley Farms, Inc. He is the Board Chairman of Pioneer Growers Cooperative and serves as Director on the Boards of Hundley Farms, Inc., Frontier Produce, Inc., Double H Farms, Inc., Florida Fruit and Vegetable Association, and Law Enforcement Assistance Foundation, a fund raising organization. He is President of Sunshine Sweet Corn Farmers of Florida. He serves as a Director of Elberta Logistics International, LLC, an agricultural transport business, is an owner and managing member of Many H's, LLC, an agricultural transport business, and is an owner and managing member of American Berry Company, LLC, a blueberry growing business. Mr. Hopkins had previously held elected director positions on the Boards of Farm Credit of South Florida and Farm Credit of Florida from 2009 until 2013. During this time, he was a member of the Audit Committee. On January 30, 2014, the Board appointed Mr. Hopkins as an appointed stockholder director, a position established under the Bylaws and his current term of office is 2023 - 2026. Mr. Hopkins is a current member of the Compensation, Governance and Executive Committees. He also serves on the AgFirst Nominating Committee.

Joseph C. Joyce serves as an Outside Director of the Association. He is the Executive Director of the University of Florida Leadership and Education Foundation, Inc. He retired from the University of Florida in 2015 as a Professor Emeritus after serving 20 years as Senior Associate Vice President for IFAS. He is a 2016 inductee to the Florida Agricultural Hall of Fame. He was appointed by the Governor to the Florida Environmental Regulation commission and served from 2008 - 2024. He is a past Director of the Citrus Research and Development Foundation, and retired as a Brigadier General, US Army Reserves after a 28 year career. Dr. Joyce was appointed to the Farm Credit of North Florida board in 2008 and his current term of office is 2022 - 2025. He is a current member of the Audit and Compensation Committees. He also serves on the AgFirst Plan Sponsor and the AgFirst / FCBT Plan Sponsor Committees.

Martin J. "Marty" McKenna is a citrus grower and operates McKenna Brothers, Inc., a privately owned citrus and harvesting operation. He has ownership in Dixie Belle Grove Partnership, Tombstone Grove Partnership, JMCK Enterprises, LLC, New Port Groves Partnership, EdMac Partnership, and McKenna Family Enterprises, LLC. Mr. McKenna is a Director, Officer, and has ownership interest in McKenna Brothers, Inc., McKenna & Associates Citrus, Inc., McKenna Harvesting, Inc., and Poachers Hammock Grove, Inc. He manages Firetower Grove Partnership. Mr. McKenna serves on the Board of Florida's Natural Growers. He is President and an Officer of Orange Growers Marketing Association, Inc. He is a former Chairman and currently serves on the Florida Citrus Commission. Mr. McKenna was elected to the Farm Credit of Southwest Florida board in 2009. His current term of office is 2021 - 2024. He is a current member of the Credit/Lending and Governance Committees.

John R. Newbold, III owns, operates and is President of Forest Groves, Inc., a cut-foliage farm and vineyard. He is an owner and manager of Newbold Farms, LLC. He is a Director of the Putnam County Fair Authority. He serves as Director and President of the Florida Wine and Grape Growers Association, and is a Director of the Viticulture Advisory Council, the Crescent City Cemetery Association, and the Florida Wildflower Cooperative. He serves on the Board of Supervisors of the Putnam County Soil & Water Conservation District, and on the Board of Trustees of the Putnam First Cancer Fund. Mr. Newbold was elected to the Farm Credit of Florida board in 2014 and his current term of office is 2023 - 2026. Mr. Newbold serves as chair of the Compensation Committee and is a current member of the Audit and Executive Committees.

Harrell H. "Hal" Phillips, Jr. is a cattleman and veterinarian in Levy and Marion Counties. Dr. Phillips owns and operates Phillips Ranch, a ranching and background / stocker operation, with almost 1,200 breeding age beef cattle and background approximately 1,000 calves annually. The ranch also produces hay, sod, grass seed, small grains, and timber. Dr. Phillips has 37 years of experience as a veterinarian. He serves as Director, and is past President, of both the Florida Cattlemen's Association and the Marion County Cattlemen's Association. Dr. Phillips is a past Director of the National Cattlemen's Beef Association. He serves as Director on the Southeastern Youth Fair Board. He was originally appointed to the Farm Credit of Florida board in 2015 for a term that expired in 2016, and then was elected to serve a term of office from 2016 – 2017. His current term of office is 2023 - 2026. Dr. Phillips serves as chair of the Governance Committee and is a current member of the Compensation and Executive Committees.

Francisco J. Pines serves as an Outside Director of the Association. He is the founder and managing partner of Francisco J. Pines, PA, a law firm in Coral Gables, Florida, that specializes in the protection of constitutional property rights and the representation of property owners, ranchers, growers, and business owners in eminent domain proceedings. In addition to his property defense practice, he acts as preferred title agent to national developers in connection with real estate transactions and land use and development counsel for large scale planned communities. He holds various leadership roles in family-owned entities involved in agriculture and commercial real estate. Mr.

Pines served two terms on the Florida Citrus Commission and is a graduate of the Wedgworth Leadership Institute Class V. He was originally appointed to the Board in 2022 for a term which expired in 2023. His current term of office is 2023 – 2026. Mr. Pines serves on the Compensation and Credit/Lending committees.

Robert G. "Bobby" Sexton is a citrus grower and juice processor from Vero Beach, Florida. He is the owner, a Director and President of Oslo Citrus Growers Association, Inc., and co-owner of Orchid Island Juice Company. He is co-owner and serves as Chairman of Oslo Packing Company and Sexton Inc., family real estate companies. He is co-owner and serves as a Director on the Board of Lost Legend, LLC. He is a shareholder and also serves as a Director on the Board of the Federal Agricultural Mortgage Corporation (Farmer Mac). He serves on the Board of the Scholarship Foundation of Indian River County and the Indian River Citrus League. Mr. Sexton was elected to the Farm Credit of South Florida board in 1995 and his current term of office is 2022 - 2025. He is a current member of the Audit and Governance Committees.

Alisa "Lisa" Sherman operates a beef cattle operation in Highlands County and is a Certified Public Accountant in Lake Placid. Ms. Sherman is an officer and serves on the board of Lake Childs Citrus, Inc., The Great Fruit Company, Inc., Highlands County 4H Club Foundation, Inc., Embassy Ministries, Inc., Good Care Home, Inc., and Lisa Sherman, CPA, P.A. Ms. Sherman is an officer of Citrus Marketing Services, Inc. She had previously held an Outside Director position on the boards of Farm Credit of Southwest Florida and Farm Credit of Florida from 2008 until May 2014. On May 29, 2014, the board appointed Ms. Sherman as an appointed stockholder director, a position established under the Bylaws and her current term of office is 2023 - 2026. Ms. Sherman serves as chair of the Audit Committee and is a current member of the Compensation and Executive Committees.

Donald G. "Don" Tanner Jr. operates Oak Hill Farms Cattle Company, which is a cow/calf and stocker operation in Callahan, FL. He has a three generation relationship with Farm Credit. His family (grandparents and parents) produced hay and cattle and were contract poultry growers for what became Tyson Foods, Inc. in Jacksonville, where he worked in management for the company itself in live production, plant operations, and ultimately Controller of the Jacksonville Complex. He is Controller at reforestation contractor Mizell Development, Inc., and President of Oak Hill Farms Cattle Company. He currently serves as a Director of Farmers Federal Credit Union where he was past chair of the Supervisory Committee. He is a Director of Nassau County Farm Bureau and current member of the Florida Farm Bureau Beef Advisory Committee. He is a past Officer/Director and current member of the Nassau County Cattlemen's Association and past Director/Trustee and current member of the Northeast Florida Fair Association. Mr. Tanner is also a Public Arbitrator with the Financial Industry Regulatory Authority (FINRA). He was elected to the Farm Credit of Florida Board in 2021, and his current term of office is 2021 - 2024. Mr. Tanner is a member of the Audit and Credit/Lending Committees. Mr. Tanner serves as the Board Cybersecurity Specialist and holds the National Association of Corporate Directors (NACD) CERT Certificate in Cybersecurity Oversight.

Amanda E. Taylor serves as an Outside Director of the Association. She is co-founder and partner of Houston Taylor, PLLC, a law firm in St. Petersburg, Florida. She is a member of Taylor Farms, LLC, a commercial cow/ calf operation. Ms. Taylor serves on the Board of the Florida State Fair Authority and is a graduate of the Wedgworth Leadership Institute. She was appointed to the Board on February 23, 2022, and her current term of office is 2022 - 2024. Ms. Taylor serves on the Audit and Credit/Lending committees.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations. In the opinion of management, none of the loans outstanding at December 31, 2023 to senior officers or directors as defined in FCA regulations involved more than the normal risk of collectability.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditors

There were no changes in or material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees paid by the Association for services rendered by its independent auditors for the year ended December 31, 2023 were as follows:

	2023
Independent Auditors	
PricewaterhouseCoopers LLP	
Audit services	$ 143,340
Total	$ 143,340

Audit fees were for the annual audit of the consolidated financial statements.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 7, 2024 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-800-432-4156 or writing Laura Craker, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421 or accessing the web site, ***www.farmcreditfl.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the Association's web site, 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.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the "*Management's Discussion and Analysis of Financial Condition and Results of Operations"* section included in this Annual Report to the shareholders.

Shareholder Investment

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank'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 by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of Florida, ACA (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 2023, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from Farm Credit of Florida, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2023. The foregoing report is provided by the following independent directors, who constitute the Committee:

Alisa Sherman
Chairman of the Audit Committee

Members of Audit Committee

John L. Alger
Howard P. Bateman
Joseph C. Joyce
John R. Newbold, III
Robert G. Sexton
Donald G. Tanner, Jr.
Amanda E. Taylor

March 7, 2024

Report of Independent Auditors

To the Management and Board of Directors of Farm Credit of Florida, ACA

Opinion

We have audited the accompanying consolidated financial statements of Farm Credit of Florida, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2023, 2022 and 2021, and the related consolidated statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2023, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Association changed the manner in which it accounts for the allowance for credit losses in 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2023 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 7, 2024

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2023	2022	2021
Assets			
Cash	**$ 14**	$ 16	$ 16
Investments in debt securities:			
Held to maturity (fair value of $1,895, $2,119, and $2,769, respectively)	**1,781**	2,040	2,286
Loans	**1,578,069**	1,511,721	1,401,695
Allowance for loan losses	**(9,366)**	(8,685)	(9,078)
Net loans	**1,568,703**	1,503,036	1,392,617
Loans held for sale	**6,894**	17	893
Accrued interest receivable	**10,347**	8,427	6,146
Equity investments in other Farm Credit institutions	**26,273**	19,286	13,775
Premises and equipment, net	**7,634**	7,926	8,226
Accounts receivable	**12,800**	9,893	23,727
Other assets	**1,638**	1,340	915
Total assets	**$ 1,636,084**	$ 1,551,981	$ 1,448,601
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,246,767**	$ 1,178,379	$ 1,094,413
Accrued interest payable	**5,276**	3,808	2,064
Patronage refunds payable	**14,930**	16,819	17,809
Accounts payable	**5,108**	5,538	4,752
Advanced conditional payments	**5,209**	2,405	2,837
Other liabilities	**7,550**	7,537	6,919
Total liabilities	**1,284,840**	1,214,486	1,128,794
Commitments and contingencies (Note 11)			
Members' Equity			
Protected borrower stock	**445**	445	445
Capital stock and participation certificates	**2,399**	2,437	2,968
Additional paid-in-capital	**7,873**	7,873	7,873
Retained earnings			
Allocated	**147,634**	141,579	135,975
Unallocated	**193,037**	185,301	172,785
Accumulated other comprehensive income (loss)	**(144)**	(140)	(239)
Total members' equity	**351,244**	337,495	319,807
Total liabilities and members' equity	**$ 1,636,084**	$ 1,551,981	$ 1,448,601

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2023	2022	2021
Interest Income			
Loans	**$ 98,933**	$ 71,926	$ 59,514
Investments	**121**	112	111
Total interest income	**99,054**	72,038	59,625
Interest expense	**53,695**	32,332	24,419
Net interest income	**45,359**	39,706	35,206
Provision for (reversal of) allowance for credit losses	**4,917**	(1,078)	(1,580)
Net interest income after provision for (reversal of) allowance for credit losses	**40,442**	40,784	36,786
Noninterest Income			
Loan fees	**1,084**	1,334	1,395
Fees for financially related services	**3,738**	4,574	4,578
Patronage refunds from other Farm Credit institutions	**12,535**	16,030	23,589
Gains (losses) on sales of rural home loans, net	**189**	393	818
Gains (losses) on sales of premises and equipment, net	**25**	4	94
Gains (losses) on other transactions	**(538)**	(192)	99
Other noninterest income	**116**	357	417
Total noninterest income	**17,149**	22,500	30,990
Noninterest Expense			
Salaries and employee benefits	**21,172**	20,242	20,819
Occupancy and equipment	**1,319**	1,290	1,282
Insurance Fund premiums	**2,154**	2,165	1,640
Purchased services	**946**	737	906
Data processing	**171**	207	225
Other operating expenses	**4,023**	4,020	3,027
(Gains) losses on other property owned, net	**(33)**	—	(27)
Total noninterest expense	**29,752**	28,661	27,872
Net income	**$ 27,839**	$ 34,623	$ 39,904
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(4)**	99	22
Comprehensive income	**$ 27,835**	$ 34,722	$ 39,926

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Protected Borrower Stock	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, 2020	$ 445	$ 2,803	$ 7,873	$ 127,974	$ 158,384	$ (261)	$ 297,218
Comprehensive income					39,904	22	39,926
Capital stock/participation certificates issued/(retired), net		165					165
Patronage distribution							
Cash					(17,500)		(17,500)
Nonqualified retained earnings				6,792	(6,792)		—
Patronage distribution adjustment				1,209	(1,211)		(2)
Balance at December 31, 2021	$ 445	$ 2,968	$ 7,873	$ 135,975	$ 172,785	$ (239)	$ 319,807
Comprehensive income					34,623	99	34,722
Capital stock/participation certificates issued/(retired), net		(531)					(531)
Patronage distribution							
Cash					(16,500)		(16,500)
Nonqualified retained earnings				5,037	(5,037)		—
Patronage distribution adjustment				567	(570)		(3)
Balance at December 31, 2022	$ 445	$ 2,437	$ 7,873	$ 141,579	$ 185,301	$ (140)	$ 337,495
Cumulative effect of change in accounting principle					**452**		**452**
Comprehensive income					**27,839**	**(4)**	**27,835**
Capital stock/participation certificates issued/(retired), net		**(38)**					**(38)**
Patronage distribution							
Cash					**(14,500)**		**(14,500)**
Nonqualified retained earnings				**5,804**	**(5,804)**		**—**
Patronage distribution adjustment				**251**	**(251)**		**—**
Balance at December 31, 2023	**$ 445**	**$ 2,399**	**$ 7,873**	**$ 147,634**	**$ 193,037**	**$ (144)**	**$ 351,244**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2023	2022	2021
Cash flows from operating activities:			
Net income	**$ 27,839**	$ 34,623	$ 39,904
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**659**	673	680
Amortization (accretion) of net deferred loan costs (fees)	**(721)**	(957)	(844)
Premium amortization (discount accretion) on investments in debt securities	**10**	12	15
Amortization (accretion) of yield mark resulting from merger	**(294)**	(283)	(495)
Provision for (reversal of) allowance for credit losses	**4,917**	(1,078)	(1,580)
(Gains) losses on other property owned	**(38)**	—	(29)
(Gains) losses on sales of premises and equipment, net	**(25)**	(4)	(94)
(Gains) losses on sales of rural home loans, net	**(189)**	(393)	(818)
(Gains) losses on other transactions	**538**	192	(99)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(22,867)**	(32,077)	(39,145)
Proceeds from sales of loans held for sale, net	**15,580**	33,346	39,289
(Increase) decrease in accrued interest receivable	**(1,920)**	(2,281)	(236)
(Increase) decrease in accounts receivable	**(2,907)**	13,834	(2,732)
(Increase) decrease in other assets	**(298)**	(425)	(169)
Increase (decrease) in accrued interest payable	**1,468**	1,744	7
Increase (decrease) in accounts payable	**(430)**	786	1,380
Increase (decrease) in other liabilities	**(319)**	525	(70)
Total adjustments	**(6,836)**	13,614	(4,940)
Net cash provided by (used in) operating activities	**21,003**	48,237	34,964
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	**255**	240	294
Net (increase) decrease in loans	**(68,829)**	(108,121)	(68,227)
(Increase) decrease in equity investments in other Farm Credit institutions	**(6,987)**	(5,511)	1,216
Purchases of premises and equipment	**(482)**	(370)	(404)
Proceeds from sales of premises and equipment	**140**	1	116
Proceeds from sales of other property owned	**111**	—	54
Net cash provided by (used in) investing activities	**(75,792)**	(113,761)	(66,951)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**68,410**	83,980	46,288
Net increase (decrease) in advanced conditional payments	**2,804**	(432)	45
Capital stock and participation certificates issued/(retired), net	**(38)**	(531)	165
Patronage refunds and dividends paid	**(16,389)**	(17,493)	(14,509)
Net cash provided by (used in) financing activities	**54,787**	65,524	31,989
Net increase (decrease) in cash	**(2)**	—	2
Cash, beginning of period	**16**	16	14
Cash, end of period	**$ 14**	$ 16	$ 16
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 25**	$ —	$ —
Receipt of property in settlement of loans	**98**	—	25
Estimated cash dividends or patronage distributions declared or payable	**14,500**	16,500	17,500
Cumulative effect of change in accounting principle	**452**	—	—
Employee benefit plans adjustments (Note 9)	**4**	(99)	(22)
Supplemental information:			
Interest paid	**$ 52,249**	$ 30,602	$ 24,417

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of Florida, ACA (the Association) is a member-owned cooperative which provides credit and credit-related services to qualified borrowers in the counties of Alachua, Baker, Bradford, Broward, Charlotte, Clay, Collier, Columbia, DeSoto, Dixie, Duval, Flagler, Gilchrist, Glades, Hamilton, Hardee, Hendry, Highlands, Indian River, Lafayette, Lee, Levy, Manatee, Marion, Martin, Miami-Dade, Monroe, Nassau, Okeechobee, Palm Beach, Putnam, St. Johns, St. Lucie, Sarasota, Suwannee and Union in the state of Florida.

The Association is a lending institution in the Farm Credit System (System), a nationwide network of cooperatively owned banks and associations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), (collectively, the System Banks) each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities.

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate long-term, short-term and intermediate-term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst (Bank) and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own substantially all of AgFirst's voting stock. As of year-end, the District consisted of the Bank and sixteen District Associations. All sixteen were structured as ACA holding companies, with PCA and FLCA subsidiaries. FLCAs are tax-exempt while ACAs and PCAs are taxable.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions. However, it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity and financial services that can be offered by the Association, and the persons eligible to borrow.

The Associations borrow from the Bank and in turn may originate and service short- and intermediate-term loans to their members, as well as long-term real estate mortgage loans.

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a General Financing Agreement (GFA) between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information systems, and marketing. The costs of these support services are included in cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA.

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

A. **Accounting Standard Updates (ASUs) 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 on a prospective basis, 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 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	$ 8,685	$ (790)	$ 7,895
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 509	$ 338	$ 847
Retained earnings:			
Unallocated retained earnings	$ 185,301	$ 452	$ 185,753

   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.

B. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held no cash in excess of insured amounts.

C. **Loans and Allowance for Credit Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

   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. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

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 and discounts.

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 credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Association uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the ratings carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows significantly as a loan moves from a 9 to 10 (other assets especially mentioned) and grows more significantly as a loan moves to a substandard viable level of 11. A substandard non-viable rating of 12 indicates that the probability of default is almost certain. Loans risk rated 13 or 14 are generally written off.

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

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

In addition to the quantitative calculation, the Association considers the imprecision inherent in the process and methodology, emerging risk assessments and other subjective factors, which may lead to a management adjustment to the modeled 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. No allowance for credit losses is recorded for commitments that are unconditionally cancellable.

D. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value. Generally, only home loans that are to be sold on the secondary mortgage market through various lenders are held for sale.

E. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) on Other Property Owned, Net in the Consolidated Statements of Comprehensive Income.

F. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized. Premises and equipment are evaluated for impairment whenever events or circumstances indicate that the carrying value of the asset may not be recoverable.

From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in Other Assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-down of property held for sale is recorded as a loss in the period identified.

G. **Investments:** The Association may hold investments as described below.

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

Investments in Debt Securities
The Association holds certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded in the Consolidated Balance Sheets as securities on the trade date.

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and carried at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included as a component of Other Comprehensive Income (OCI). Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security using the interest method. The amortization of premiums on certain purchased callable debt securities that have explicit, noncontingent call features and that are callable at fixed prices on preset dates are amortized to the earliest call date.

Other Equity Investments
Any equity securities with a readily determinable fair value are carried at fair value with unrealized gains and losses included in earnings. Equity securities without a readily determinable fair value are carried at cost less any impairment.

The Association holds minority equity interests in a Rural Business Investment Company (RBIC). This investment is carried at cost less any impairment, plus or minus adjustments resulting from any observable price changes.

Other Investments
As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust accounts, and are reported at fair value. Holding period gains and losses are included within Noninterest Income on the Consolidated Statements of Comprehensive Income and the balance of these investments is included in Other Assets on the accompanying Consolidated Balance Sheets.

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

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

Impairment
Prior to the adoption of CECL, the Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected in OCI, unless the investment is deemed to be other-than-temporarily impaired (OTTI). Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a *credit loss*). If the Association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in OCI.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Association will record additional OTTI and adjust the yield of the security prospectively. The amount of total OTTI for an AFS security that previously was impaired is determined as the difference between its carrying amount prior to the determination of OTTI and its fair value.

Investment Income
Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

Dividends from Investments in Other Farm Credit Institutions are generally recorded as patronage income and included in Noninterest Income.

H. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

I. **Employee Benefit Plans:** The Association participates in District and multi-district sponsored benefit plans. These plans may include defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

Defined Contribution Plans
Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

The Association also offers a FCBA supplemental 401(k) plan for certain key employees. This plan is nonqualified. Company contributions are expensed as funded.

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans
Substantially all employees hired before January 1, 2003 may participate in the AgFirst Farm Credit Retirement Plan (Plan), which is a defined benefit plan and considered multiemployer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-district sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to employees, their beneficiaries, and covered dependents during the years the employees render service necessary to become eligible for benefits.

Since the foregoing plans are multiemployer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Annual Information Statement of the Farm Credit System.

Additional information may be found in Note 9 and in the Notes to the Annual Information Statement of the Farm Credit System.

Single Employer Defined Benefit Plan
The Association also sponsors a single employer defined benefit supplemental retirement plan for certain key employees. This plan is nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements.

Additional information may be found in Note 9.

J. **Income Taxes:** The Association evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to, an entity's status, including its status as a pass-through entity or tax-exempt entity.

The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state, and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock, or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the expected patronage program, which reduces taxable earnings.

K. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District associations on an accrual basis.

L. **Valuation Methodologies:** FASB guidance defines fair value 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. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

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

Level 2 inputs to the valuation methodology 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 to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing.

The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, and certain derivatives, investment securities and other financial instruments. Inputs to these valuations can involve estimates and assumptions that require a substantial degree of judgment. Some of the assumptions used include, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on results of operations.

Additional information may be found in Note 8.

M. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Unfunded commitments, and other commitments to extend credit, are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

N. **Revenue Recognition:** The Association generates income from multiple sources.

Financial Instruments
The largest source of revenue for the Association is interest income. Interest income is recognized on an accrual basis driven by nondiscretionary formulas based on written contracts, such as loan agreements or securities contracts. Credit-related fees, including letter of credit fees, finance charges and other fees are recognized in Noninterest Income when earned. Other types of noninterest revenues, such as service charges, professional services and broker fees, are accrued and recognized into income as services are provided and the amount of fees earned is reasonably determinable.

Contracts with Customers
The Association maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. As most of the contracts are to provide access to expertise or system capacity that the Association maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. The Association does not generally incur costs to obtain contracts. Revenue is recognized to reflect the transfer of goods and services to customers in an amount equal to the consideration the Association receives or expects to receive.

Gains and Losses from Nonfinancial Assets
Any gains or losses on sales of Premises and Equipment and OPO are included as part of Noninterest Income or Noninterest Expense. These gains and losses are recognized, and the nonfinancial asset is derecognized, when the Association has entered into a valid contract with a noncustomer and transferred control of the asset. If the criteria to meet the definition of a contract have not been met, the Association does not derecognize the nonfinancial asset and any consideration received is recognized as a liability. If the criteria for a contract are subsequently met, or if the consideration received is or becomes nonrefundable, a gain or loss may be recognized at that time.

O. **Leases:** A contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration is generally considered a lease.

Lessee
Contracts entered into are evaluated at inception to determine if they contain a lease. Assets and liabilities are recognized on the Consolidated Balance Sheets to reflect the rights and obligations created by any contracts that do. These contracts are then classified as either operating or finance leases.

In the course of normal operations, the Association may enter into leases for various business purposes. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement. Any options are assessed individually to determine if it is reasonably certain they will be exercised.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make the payments arising from the lease. ROU assets and lease liabilities are initially recognized based on the present value of lease payments over the lease term. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Lease expense for finance leases is recognized on a declining basis over the lease term.

ROU assets are included on the Consolidated Balance Sheets in Premises and Equipment for finance leases and Other Assets for operating leases. Lease liabilities are included in Other Liabilities on the Consolidated Balance Sheets. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets and lease expense is recognized over the lease term.

Lessor
The Association acts as lessor in certain contractual arrangements. The contracts relate to office space in an owned property and are considered operating leases. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement.

Lease income is recognized on a straight-line basis over the lease term. Lease and nonlease components are accounted for separately in the Consolidated Statements of Comprehensive Income. Any initial direct costs are deferred and recognized as an expense over the lease term on the same basis as lease income. Any taxes assessed by a governmental authority are excluded from consideration as variable payments.

Lease receivables and income are included in Accounts Receivable on the Consolidated Balance Sheets and Other Noninterest Income in the Consolidated Statements of Comprehensive Income.

Note 3 — Loans and Allowance for Credit Losses

For a description of the Association's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2 subsection C above.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the Board of Directors.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (see further discussion in Note 2 subsection B above) and a separate scale addressing estimated percentage loss in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

The Association's loan portfolio, which includes purchased interests in loans, has been segmented by the following loan types as defined by the FCA:

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.

- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31, 2023	December 31, 2022	December 31, 2021
Real estate mortgage	$ 876,328	$ 837,985	$ 812,859
Production and intermediate-term	260,136	267,703	240,827
Agribusiness:			
Loans to cooperatives	30,122	27,967	35,781
Processing and marketing	176,669	182,691	153,768
Farm-related business	41,854	47,439	38,326
Rural infrastructure:			
Communication	76,978	70,372	62,935
Power and water/waste disposal	72,496	36,927	22,916
Rural residential real estate	21,411	20,339	18,010
Other:			
International	17,506	15,376	11,011
Other (including Mission Related)	4,569	4,922	5,262
Total loans	$ 1,578,069	$ 1,511,721	$ 1,401,695

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

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

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:

	December 31, 2023							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 29,640	$ 180,081	$ 126	$ –	$ –	$ –	$ 29,766	$ 180,081
Production and intermediate-term	88,626	31,375	1,175	17,037	62	–	89,863	48,412
Agribusiness	177,208	68,549	1,800	63,840	499	–	179,507	132,389
Rural infrastructure	149,814	–	–	–	–	–	149,814	–
Other	17,556	–	–	–	2,551	–	20,107	–
Total	$ 462,844	$ 280,005	$ 3,101	$ 80,877	$ 3,112	$ –	$ 469,057	$ 360,882

	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	$ 30,997	$ 165,269	$ 408	$ –	$ –	$ –	$ 31,405	$ 165,269
Production and intermediate-term	72,016	18,262	1,936	192	2,287	–	76,239	18,454
Agribusiness	185,597	92,952	2,689	86,817	730	–	189,016	179,769
Rural infrastructure	107,453	–	–	–	–	–	107,453	–
Other	15,410	–	–	–	2,801	–	18,211	–
Total	$ 411,473	$ 276,483	$ 5,033	$ 87,009	$ 5,818	$ –	$ 422,324	$ 363,492

	December 31, 2021							
	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	$ 33,465	$ 90,370	$ 541	$ –	$ –	$ –	$ 34,006	$ 90,370
Production and intermediate-term	51,093	14,404	1,505	252	1,244	–	53,842	14,656
Agribusiness	158,461	75,766	9,217	86,594	951	–	168,629	162,360
Rural infrastructure	85,979	–	–	–	–	–	85,979	–
Other	11,036	–	–	–	3,043	–	` 14,079	–
Total	$ 340,034	$ 180,540	$ 11,263	$ 86,846	$ 5,238	$ –	$ 356,535	$ 267,386

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

	December 31,		
	2023	2022*	2021*
Real estate mortgage:			
Acceptable	97.75%	97.40%	95.84%
OAEM	1.26	1.77	2.37
Substandard/doubtful/loss	0.99	0.83	1.79
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	97.49%	91.70%	88.38%
OAEM	0.44	2.28	7.44
Substandard/doubtful/loss	2.07	6.02	4.18
	100.00%	100.00%	100.00%
Agribusiness:			
Acceptable	94.49%	98.60%	98.08%
OAEM	5.43	1.28	0.30
Substandard/doubtful/loss	0.08	0.12	1.62
	100.00%	100.00%	100.00%
Rural infrastructure:			
Acceptable	94.52%	100.00%	100.00%
OAEM	5.48	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	99.45%	99.84%	99.39%
OAEM	0.18	0.10	0.17
Substandard/doubtful/loss	0.37	0.06	0.44
	100.00%	100.00%	100.00%
Other:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	96.94%	96.84%	95.27%
OAEM	2.15	1.61	2.71
Substandard/doubtful/loss	0.91	1.55	2.02
	100.00%	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 $10,331, $8,406, and $6,127 at December 31, 2023, 2022, and 2021, 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:

	December 31, 2023				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 1,076	$ 45	$ 1,121	$ 875,207	$ 876,328
Production and intermediate-term	193	4,923	5,116	255,020	260,136
Agribusiness	–	–	–	248,645	248,645
Rural infrastructure	–	–	–	149,474	149,474
Rural residential real estate	–	80	80	21,331	21,411
Other	–	–	–	22,075	22,075
Total	$ 1,269	$ 5,048	$ 6,317	$ 1,571,752	$ 1,578,069

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
Real estate mortgage	$ 2,728	$ –	$ 2,728	$ 840,346	$ 843,074
Production and intermediate-term	719	–	719	268,634	269,353
Agribusiness	–	–	–	259,377	259,377
Rural infrastructure	–	–	–	107,414	107,414
Rural residential real estate	13	–	13	20,387	20,400
Other	–	–	–	20,509	20,509
Total	$ 3,460	$ –	$ 3,460	$ 1,516,667	$ 1,520,127

	December 31, 2021				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 3,127	$ 1,158	$ 4,285	$ 812,852	$ 817,137
Production and intermediate-term	48	34	82	241,654	241,736
Farm-related business	24	–	24	228,625	228,649
Power and water/waste disposal	–	–	–	85,874	85,874
Rural residential real estate	35	–	35	18,022	18,057
Other (including Mission Related)	–	–	–	16,369	16,369
Total	$ 3,234	$ 1,192	$ 4,426	$ 1,403,396	$ 1,407,822

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

	December 31, 2023
Nonaccrual loans:	
Real estate mortgage	$ 1,645
Production and intermediate-term	4,928
Agribusiness	217
Rural residential real estate	80
Total	$ 6,870
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 6,870
Other property owned	–
Total nonperforming assets	$ 6,870
Nonaccrual loans as a percentage of total loans	0.44%
Nonperforming assets as a percentage of total loans and other property owned	0.44%
Nonperforming assets as a percentage of capital	1.96%

	December 31, 2022*	December 31, 2021*
Nonaccrual loans:		
Real estate mortgage	$ 429	$ 2,476
Production and intermediate-term	510	1,852
Agribusiness	234	242
Rural residential real estate	–	79
Total	$ 1,173	$ 4,649
Accruing restructured loans:		
Real estate mortgage	$ 258	$ 533
Production and intermediate-term	–	80
Total	$ 258	$ 613
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 1,431	$ 5,262
Other property owned	–	–
Total nonperforming assets	$ 1,431	$ 5,262
Nonaccrual loans as a percentage of total loans	0.08%	0.33%
Nonperforming assets as a percentage of total loans and other property owned	0.09%	0.38%
Nonperforming assets as a percentage of capital	0.42%	1.65%

**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:

	December 31, 2023			Interest Income Recognized on Nonaccrual Loans
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Year Ended December 31, 2023
Real estate mortgage	$ –	$ 1,645	$ 1,645	$ 160
Production and intermediate-term	4,405	523	4,928	481
Agribusiness	–	217	217	21
Rural residential real estate	–	80	80	8
Total	$ 4,405	$ 2,465	$ 6,870	$ 670

Effective January 1, 2023, the Association adopted the CECL accounting guidance as described in Note 2. A summary of changes in the allowance for credit losses by portfolio segment is as follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for Loan Losses:							
Balance at December 31, 2022	$ 2,936	$ 3,883	$ 1,520	$ 265	$ 69	$ 12	$ 8,685
Cumulative effect of a change in accounting principle	2,006	(2,443)	(359)	(32)	33	5	(790)
Balance at January 1, 2023	$ 4,942	$ 1,440	$ 1,161	$ 233	$ 102	$ 17	$ 7,895
Charge-offs	–	(3,974)	–	–	–	–	(3,974)
Recoveries	58	497	–	–	23	–	578
Provision for loan losses	(326)	4,882	200	110	1	–	4,867
Balance at December 31, 2023	$ 4,674	$ 2,845	$ 1,361	$ 343	$ 126	$ 17	$ 9,366
Allowance for Unfunded Commitments:							
Balance at December 31, 2022	$ 30	$ 287	$ 180	$ 9	$ –	$ 3	$ 509
Cumulative effect of a change in accounting principle	83	40	158	49	–	8	338
Balance at January 1, 2023	$ 113	$ 327	$ 338	$ 58	$ –	$ 11	$ 847
Provision for unfunded commitments	(86)	156	3	(28)	4	1	50
Balance at December 31, 2023	$ 27	$ 483	$ 341	$ 30	$ 4	$ 12	$ 897
Total allowance for credit losses	$ 4,701	$ 3,328	$ 1,702	$ 373	$ 130	$ 29	$ 10,263
Allowance for Loan Losses*:							
Balance at December 31, 2021	$ 3,166	$ 4,038	$ 1,541	$ 249	$ 74	$ 10	$ 9,078
Charge-offs	–	(60)	–	–	–	–	(60)
Recoveries	110	606	–	–	29	–	745
Provision for loan losses	(340)	(701)	(21)	16	(34)	2	(1,078)
Balance at December 31, 2022	$ 2,936	$ 3,883	$ 1,520	$ 265	$ 69	$ 12	$ 8,685
Balance at December 31, 2020	$ 4,414	$ 3,682	$ 1,562	$ 300	$ 74	$ 11	$ 10,043
Charge-offs	(13)	(16)	–	–	–	–	(29)
Recoveries	446	197	–	–	1	–	644
Provision for loan losses	(1,681)	175	(21)	(51)	(1)	(1)	(1,580)
Balance at December 31, 2021	$ 3,166	$ 4,038	$ 1,541	$ 249	$ 74	$ 10	$ 9,078

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $21,921, $25,076, and $27,718 at December 31, 2023, 2022, and 2021, respectively. Fees paid for such guarantee commitments totaled less than $1 for each of the years presented. These amounts are classified as noninterest expense.

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 year ended December 31, 2023. There were no material commitments to lend to borrowers experiencing financial difficulty whose loans have been modified at December 31, 2023.

Loans held for sale were $6,894, $17, and $893 at December 31, 2023, 2022, and 2021, 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 TDR, these loans were included within impaired loans under nonaccrual or accruing restructured loans. There were no TDRs that occurred during the periods presented.

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

There were no outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs		Nonaccrual TDRs	
	December 31,		December 31,	
	2022*	2021*	2022*	2021*
Real estate mortgage	$ 259	$ 1,671	$ 1	$ 1,138
Production and intermediate-term	–	982	–	902
Farm-related business	234	242	234	242
Rural residential real estate	–	1	–	1
Total loans	$ 493	$ 2,896	$ 235	$ 2,283
Additional commitments to lend	$ –	$ –		

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

Note 4 — Investments

Investments in Debt Securities

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

The Association's investments also consist 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 December 31, 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 follows:

	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,424	$ 128	$ –	$ 1,552	5.77%
ABSs	357	1	(15)	343	4.41
Total	$ 1,781	$ 129	$ (15)	$ 1,895	5.50%

	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,469	$ 95	$ (1)	$ 1,563	5.77%
ABSs	571	4	(19)	556	3.43
Total	$ 2,040	$ 99	$ (20)	$ 2,119	5.12%

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,514	$ 503	$ –	$ 2,017	5.77%
ABSs	772	6	(26)	752	0.58
Total	$ 2,286	$ 509	$ (26)	$ 2,769	4.02%

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

	December 31, 2023		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 18	$ 17	-6.25%
After one year through five years	77	73	2.51
After five years through ten years	262	253	5.71
After ten years	1,424	1,552	5.77
Total	$ 1,781	$ 1,895	5.50%

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

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. Following the adoption of CECL on January 1, 2023, this table is no longer required for held-to-maturity securities. Therefore, there is no table presented for the current period.

	December 31, 2022			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 97	$ (1)	$ –	$ –
ABSs	–	–	420	(19)
Total	$ 97	$ (1)	$ 420	$ (19)

	December 31, 2021			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ –	$ –	$ 595	$ (26)

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 December 31, 2023, the Association does not consider any unrealized losses to be credit-related and an allowance for credit losses is not necessary.

Equity Investments in Other Farm Credit 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.

The Association is required to maintain ownership in 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's investment in the Bank totaled $24,891 for 2023, $17,832 for 2022 and $11,989 for 2021. The Association owned 4.78 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled $45.0 billion and shareholders' equity totaled $1.7 billion. The Bank's earnings were $265 million for 2023. In addition, the Association had investments of $1,382 related to other Farm Credit institutions at December 31, 2023.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2023	2022	2021
Land	$ 1,071	$ 1,071	$ 1,071
Buildings and improvements	10,372	10,327	10,296
Furniture and equipment	6,037	5,984	6,510
	17,480	17,382	17,877
Less: accumulated depreciation	9,846	9,456	9,651
Total	$ 7,634	$ 7,926	$ 8,226

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is 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 GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2023, the Association's notes payable were within the specified limitations.

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 and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The weighted-average interest rate on all interest-bearing notes payable was 4.74 percent and the weighted-average remaining maturity was 9.0 years at December 31, 2023. Variable rate and fixed rate notes payable represent approximately 20.53 percent and 79.47 percent, respectively, of total notes payable at December 31, 2023. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below:

A. **Protected Borrower Equity:** Protection of certain borrower equity is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lessor of two percent of the loan amount or $1 thousand. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

   The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

C. **Regulatory Capitalization Requirements and Restrictions:** An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

There are currently no prohibitions in place that would prevent the Association from retiring stock, distributing earnings, or paying dividends per the statutory and regulatory restrictions, and the Association has no reason to believe any such restrictions may apply in the future.

The capital regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity tier 1 (CET1) capital, tier 1 capital, and total 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 ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, and paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, and allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average total assets less regulatory deductions to tier 1 capital.
- The URE and UREE component of the tier 1 leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average total assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement including Capital Conservation Buffer	Capital Ratios as of December 31, 2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	18.55%	19.16%	19.45%
Tier 1 Capital	6.0%	2.5%	8.5%	18.55%	19.16%	19.45%
Total Capital	8.0%	2.5%	10.5%	19.27%	19.69%	20.06%
Permanent Capital	7.0%	0.0%	7.0%	18.67%	19.26%	19.56%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	20.95%	21.83%	22.13%
URE and UREE Leverage	1.5%	0.0%	1.5%	17.21%	17.86%	18.01%

* *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.

D. **Description of Equities:** The Association is authorized to issue or have outstanding Class D Preferred Stock, Classes A, B, and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share, except for Class D Preferred Stock which, if issued, would have a par value of one cent ($0.01) per share.

The Association had the following shares outstanding at December 31, 2023:

Class	Protected	Shares Outstanding Number	Aggregate Par Value
A Common/Nonvoting	Yes	89,062	$ 445
C Common/Voting	No	404,254	2,021
C Participation Certificates/Nonvoting	No	75,613	378
Total Capital Stock and Participation Certificates		568,929	$ 2,844

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The Board determines the minimum aggregate amount of these two accounts. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2023, allocated members' equity consisted of $56,830 of nonqualified allocated surplus and $90,804 of nonqualified retained surplus.

Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 8 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Class D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class D Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B, or C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Transfer

Class D Preferred, Classes A, B and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

a) ***First***, Assistance Preferred Stock issued and outstanding:

b) ***Second***, allocated surplus, in its entirety, with application to most recent allocation first and then in reverse order until all allocated surplus has been exhausted;
c) ***Third***, Class C Common Stock and Class C Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;
d) ***Fourth***, Class A Common and Class B Common Stock and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired; and
e) ***Fifth***, Class D Preferred Stock issued and outstanding, if any.

Distribution on Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities, shall be distributed in the following order of priority:

a) ***First***, to the holders of Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders,
b) ***Second***, to the holders of Class A Common Stock, Class B Common Stock, Class C Common Stock and Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
c) ***Third***, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of the year of issuance, until the total amount of such account has been distributed;
d) ***Fourth***, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of the year of issuance, until the total amount of such account has been distributed;
e) ***Fifth***, all unallocated surplus accrued or issued after April 22, 1995, shall be distributed to present and former Patrons from said date through the date of liquidation on a patronage basis to the extent practicable; and
f) ***Sixth***, any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of Common Stock and Participation Certificates in proportion to the number of shares or units of such class of Common Stock or participation certificates held by such holders.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made in proportion to the number of shares or units of such classes of stock or participation certificates held by such holders. All distributions to holders of allocated surplus shall be pro-rata by year of issuance.

E. **Accumulated Other Comprehensive Income (AOCI):**

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

	For the Year Ended December 31,		
	2023	**2022**	**2021**
Employee Benefit Plans:			
Balance at beginning of period	$ (140)	$ (239)	$ (261)
Other comprehensive income before reclassifications	(11)	85	8
Amounts reclassified from AOCI	7	14	14
Net current period OCI	(4)	99	22
Balance at end of period	$ (144)	$ (140)	$ (239)

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

	For the Year Ended December 31,			
	2023	**2022**	**2021**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ (7)	$ (14)	$ (14)	See Note 9.
Amounts reclassified	$ (7)	$ (14)	$ (14)	

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

Note 8 — 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 also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 for a more complete description of the three levels.

The following tables summarize assets measured at fair value at period end:

	December 31, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 1,271	$ –	$ –	$ 1,271
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 2,722	$ 2,722
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	$ 922	$ –	$ –	$ 922
Nonrecurring assets				
Impaired loans	$ –	$ –	$ –	$ –
Other property owned	$ –	$ –	$ –	$ –

	December 31, 2021			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 652	$ –	$ –	$ 652
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 1,024	$ 1,024
Other property owned	$ –	$ –	$ –	$ –

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.

Impaired loans
Fair values of impaired 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 9 — Employee Benefit Plans

The Association participates in three District sponsored qualified benefit plans. These plans include a multiemployer defined benefit pension plan, the AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan). In addition, the Association participates in a multiemployer defined benefit other postretirement benefits plan (OPEB Plan), the Farm Credit Benefits Alliance (FCBA) Retiree and Disabled Medical and Dental Plan, and the FCBA 401(k) Plan, a defined contribution 401(k) plan (401(k) Plan). The risks of participating in these multiemployer plans are different from single employer plans in the following aspects:

1. Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

1. The Employer Identification Number (EIN) and three-digit Pension Plan Number
2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were $1,147 for 2023, $1,209 for 2022 and $2,531 for 2021. At December 31, 2023, 2022, and 2021, the total liability balance for the FAP Plan was $33,660, $32,568, and $39,135, respectively. The FAP Plan was 95.43 percent, 95.81 percent, and 96.17 percent funded to the projected benefit obligation as of December 31, 2023, 2022, and 2021, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were $476 for 2023, $454 for 2022, and $428 for 2021. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $160,980, $167,895, and $209,599 at December 31, 2023, 2022, and 2021, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $1,203, $1,169, and $1,098 for the years ended December 31, 2023, 2022, and 2021, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2023, 2022, and 2021, $(4), $99, and $22 has been recognized as a net debit, a net credit, and a net credit, respectively, to AOCI to reflect these elements.

Additional information for the above may be found in the Notes to the Annual Information Statement of the Farm Credit System.

In addition to the multiemployer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of $466 and a net under-funded status of $466 at December 31, 2023. Assumptions used to determine the projected benefit obligation as of December 31, 2023 included a discount rate of 5.00 percent. The expenses of these nonqualified plans included in noninterest expenses were $31, $32, and $33 for 2023, 2022, and 2021, respectively.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2023 amounted to $156,160. During 2023, $382,306 of new loans were made and repayments totaled $362,216.

Note 11 — Commitments and Contingencies

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 not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2023, $424,094 of commitments to extend credit and $18 of commercial letters of credit were outstanding with a related reserve for unfunded commitments of $897 included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2023, standby letters of credit outstanding totaled $4,071 with expiration dates ranging from January 1, 2024 to November 3, 2027. The maximum potential amount of future payments that may be required under these guarantees was $4,071.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2023	2022	2021
Current:			
Federal	$ –	$ –	$ –
Deferred:	–	–	–
Total provision (benefit) for income taxes	$ –	$ –	$ –

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2023	2022	2021
Federal tax at statutory rate	$ 5,846	$ 7,271	$ 8,380
Patronage distributions	(3,045)	(3,465)	(3,675)
Tax-exempt FLCA earnings	(6,236)	(7,271)	(8,294)
Dividend from FLCA	3,037	3,463	3,671
Allocated Bank Stock Redemption	–	–	233
Change in deferred tax asset valuation allowance	383	(3)	(316)
Meals & Entertainment	15	5	1
Other	–	–	–
Provision (benefit) for income taxes	$ –	$ –	$ –

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2023	2022	2021
Deferred income tax assets:			
Allowance for loan losses	$ 271	$ 308	$ 317
Deferred Revenue –Merger	1	–	164
Net operating loss – carryforward	11,262	10,780	11,031
Nonaccrual loan interest	4	18	24
Loss Reserve –Letters of Credit	102	70	60
Nonqualified allocations	–	–	–
Gross deferred tax assets	11,640	11,176	11,596
Less: valuation allowance	(11,161)	(10,699)	(10,703)
Gross deferred tax assets, net of valuation allowance	479	477	893
Deferred income tax liabilities:			
Bank patronage allocation	(440)	(411)	(858)
Loan Origination Fees	(39)	(66)	(35)
Gross deferred tax liability	(479)	(477)	(893)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2023, deferred income taxes have not been provided by the Association on approximately $4.6 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $11.2 million, $10.7 million and $10.7 million as of December 31, 2023, 2022 and 2021, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

At December 31, 2023 the Association has Federal loss carryforwards totaling approximately $44.5 million that expire in varying amounts beginning in 2024. Of this loss carryforward, $0.1 million of non-pat carryforwards and $12.3 million of pat carryforwards were generated starting in the year 2018 and therefore have no expiration date. The Association also has state loss carryforwards totaling approximately $44.3 million that expire in varying amounts beginning in 2023. The valuation allowance at December 31, 2023 was primarily related to federal and state loss carryforwards that, in the judgment of management, are more likely than not to expire before realized. In evaluating the Company's ability to recover its deferred income tax assets, it considers all available evidence, both positive and negative, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2023 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2020 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2023				
	First	Second	Third	Fourth	Total
Net interest income	$ 11,346	$ 11,239	$ 11,476	$ 11,298	$ 45,359
Provision for (reversal of) allowance for credit losses	1,431	1,623	942	921	4,917
Noninterest income (expense), net	(2,947)	(2,834)	(2,779)	(4,043)	(12,603)
Net income	$ 6,968	$ 6,782	$ 7,755	$ 6,334	$ 27,839

	2022				
	First	Second	Third	Fourth	Total
Net interest income	$ 9,205	$ 10,260	$ 9,777	$ 10,464	$ 39,706
Provision for (reversal of) allowance for loan losses	(245)	(19)	(975)	161	(1,078)
Noninterest income (expense), net	(2,261)	(2,779)	(2,541)	1,420	(6,161)
Net income	$ 7,189	$ 7,500	$ 8,211	$ 11,723	$ 34,623

	2021				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 8,972	$ 8,742	$ 8,765	$ 8,727	$ 35,206
Provision for (reversal of) allowance for loan losses	(654)	(726)	(200)	–	(1,580)
Noninterest income (expense), net	(2,567)	(2,268)	(2,483)	10,436	3,118
Net income	$ 7,059	$ 7,200	$ 6,482	$ 19,163	$ 39,904

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 7, 2024, which was the date the financial statements were issued.

FARM CREDIT
OF FLORIDA

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