

NOTICE TO MEMBERS CONCERNING YOUR INVESTMENT IN FARM CREDIT OF NORTHWEST FLORIDA, ACA

You are being furnished access to Farm Credit of Northwest Florida, ACA's capitalization bylaws and most recent quarterly and annual financial reporting. If you wish to receive a copy of any of these items in written form, please email help@farmcredit-fl.com.

To borrow from Farm Credit of Northwest Florida, ACA (also "Association") you must invest in the capital of the Association. This notice contains information about the stock and participation certificates issued by the Association and its predecessor(s) to its member-borrowers after October 5, 1988. Please review and make certain you understand both the benefits and risks of an investment in your Association.

Under the Agricultural Credit Act of 1987 (1987 ACT), borrower equities, including Voting Stock (Stock) and Participation Certificates (Certificates), issued prior to October 6, 1988, are generally protected against loss by provisions of the Act. These provisions generally require when retiring pre-October 6, 1988 equities, the Association retires the Stock and Participation Certificates at their par or face value. However, these provisions are not applicable to Stock or Participation Certificates issued after October 5, 1988, as a condition of obtaining a loan, including stock issued in connection with loan assumptions and refinancing. These are an at-risk investment in the Association and not a compensating balance.

Voting Stock and Participation Certificates

Under the 1987 Act, borrowers from the Association are required to make a minimum purchase of voting stock or participation certificates in the Association in the amount of \$1,000 or 2 percent of the loan, whichever is less. The Board of Directors of the Association may establish purchases above the minimum required by law. Currently, the Association requires the minimum purchase as outlined above.

The voting stock issued by the Association is Class C Voting Stock (Voting Stock) and is issued to farmers, ranchers and harvesters of aquatic products. Other persons eligible to borrow from or do business with the Association, but not eligible to own stock, must purchase Participation Certificates, which are issued on essentially the same terms as Stock except as described below.

How Voting Stock and Participation Certificates are Purchased

Shares of Voting Stock (and units of Participation Certificates) are sold for their par value (or face amount), which is \$5.00 each and can be paid for either with cash or with proceeds of the loan if the financing of stock and other fees is approved. When the purchase is financed, the amount of the loan includes the cost of the Voting Stock or Certificates and interest is charged on the entire loan.

The total amount of the loan, including the portion used to pay for the Voting Stock or Certificates, is a legally enforceable obligation that must be repaid in full. The Association does not issue physical certificates for Voting Stock or Participation Certificates. Instead, the ownership of Voting Stock or Certificates is evidenced by entry recorded on the books of the Association.

Certain Important Characteristics of Voting Stock and Participation Certificates

The principle difference between Voting Stock and Participation Certificates is the Stock entitles its holder to one vote (regardless of how many shares are owned) with respect to the election of Association directors, who are responsible for the direction and control of the affairs of the Association, and most other matters on which stockholders are entitled to vote. Holders of Participation Certificates generally have no voting rights. However, in order for the Association to issue preferred stock, holders of Participation Certificates are entitled to vote on its authorization. The votes on preferred stock issues are weighted according to the number of shares or certificates held, and approval must be by a majority of each equity class voting. In all other respects, Stock and Participation Certificates have substantially the same rights and restrictions.

Current bylaws of the Association provide dividends may be paid on Stock or Participation Certificates with the approval of the Association's Board of Directors, except dividends may not be paid in any year with respect to which the Association is obligated to distribute patronage refunds. In addition, under the 1987 Act, dividends (and Patronage distributions) may not be declared if, after or due to such actions, the permanent capital of the Association would thereafter fail to meet the minimum capital adequacy standards established by the Association's regulator, the Farm Credit Administration.

The Association has a first lien on the Voting Stock or Participation Certificates held by a member-borrower as additional security for the member's loan. If the member defaults, the value of the member's investment (book value not to exceed par value or face amount) may be applied, subject to the discretion of the Board of Directors and applicable regulations of the Farm Credit Administration, against the balance due on the loan. If the member's Stock or Participation Certificates are transferred they are still subject to the Association's lien. In any event, Stock and Participation Certificates are transferable only to persons eligible to purchase such equities directly from the Association.

Stock and Participation Certificates do not appreciate in value. Any retirement or conversion will be at their original issue price or, if less, their book value. The possibility this investment may result in a loss is discussed below under the heading "Impairment".

Retirement of Voting Stock and Participation Certificates

Under the 1987 Act, there is no statutory requirement a member's Stock or Certificate issued after October 5, 1988, be retired upon repayment of the member's loan. Under the Association's bylaws, Stock and Participation Certification are retired only at the discretion of the Association's

Board of Directors. Stock is retired at the lower of book value or par value, while Participation Certificates are retired at the lower book value or face value amount. Book value will be determined in accordance with generally accepted accounting principles (GAAP).

In addition, under the 1987 Act, the Association is prohibited from retiring Voting Stock or Participation Certificates if such retirement should result in the Association's failure to satisfy the minimum capital adequacy standards established by the Farm Credit Administration.

If you do not borrow from the Association during the two years following repayment of your loan, and if your Voting Stock is not otherwise retired, it will be converted into non-voting stock.

Impairment

Your ownership of Voting Stock or Participation Certificates in your Association is an at-risk investment and is not a compensating balance. It is subject to certain risks that could result in a partial or complete loss of the investment. You are responsible for repayment of the entire amount of your loan, including the amount borrowed to pay for your Stock or Certificates regardless of the value of your Stock or Certificates.

These risks include:

- Loan losses experienced by the Association because of inadequate evaluation of credit risks or adverse trends in agriculture, such as loss of international markets, over-production, weather conditions or disease.
- Increases in the amount of nonaccrual loans and properties acquired from borrowers reducing the Association's revenues.
- Impairment of the Farm Credit Bank's (Bank) stock owned by the Association due to the loan losses and operating expenses of the Bank, or the Bank's joint and several liability on System wide debt securities issued by other Banks in the national Farm Credit System.

As a result of these or any other risks, the capital of the Association could become impaired. Impairment means the book value of the Voting Stock or Participation Certificates has declined below par value (or face amount), which is \$5.00 per share or unit. So long as the capital of an Association is impaired, its members would receive less upon retirement than they had paid for their Stock or Certificates. If the Association were liquidated at a time when its capital is impaired, holders of Voting Stock or Certificates would receive less than the par value or face amount of their investment and may suffer a total loss of their investment in the Association. However, in any event, member-borrowers would remain liable for the full amount of their loan from the Association, including the portion used to pay for the purchase of Stock or Certificates, without the right of offset.

Of course, the Association will take all feasible action to prevent its capital from becoming impaired. Farm Credit System Associations and banks maintain loss reserves and surplus accounts to protect against this possibility.

The 1987 Act also provides a mechanism for providing financial assistance to distressed Associations and Banks. The mechanism is described in the Association's latest Annual Report. However, the assistance mechanism in the 1987 Act does not guarantee members Stock and Participation Certificates issued after October 5, 1988 will be protected. Therefore, members are advised to review the financial statements of the Association and of the Farm Credit Bank and other available information about the Farm Credit System. Copies of the Farm Credit Bank's Annual and Interim Reports to Investors are available from the Association upon request.

The Association presently meets minimum capital standards as established in Farm Credit Administration Regulations.

The Association's Board of Directors is not aware of any reason that would result in the Association not meeting the capital standards established by the Board or the minimums established by Farm Credit Administration on the next patronage distribution date.

ARTICLE VII – CAPITAL STOCK AND PARTICIPATION CERTIFICATES

700. Authorization, Classes, Par or Face Value

The Association is authorized to issue and have outstanding Class A Preferred, Class A Common Stock, Class B Common Stock, Class C Common Stock and Class D Preferred Stock, and Class B and Class C Participation Certificates, each in such amount as specifically provided herein, or, if no amount is specifically so provided, in such amount as may be necessary to conduct the Association's business. The features of these classes are summarized in the Features of Equities table at the end of these Bylaws.

Class A Common Stock, Class B Common Stock and Class B Participation Certificates shall be issued only

- (a) pursuant to the Capitalization Plan, and
- (b) to Members who, immediately prior to the FCA's issuance of an agricultural credit association charter to the Association, held equities in the Association's predecessor production credit association and/or Federal land bank association having the same respective designations.

Other classes of equity

- (a) shall be issued as provided in the preceding sentence, or
- (b) may be issued as provided in Section 720.

Each share of stock (common and preferred) and unit of participation certificates shall have a par or face value of \$5.00. Fractional shares of stock or units of participation certificates shall not be issued. Except as to Class A Common Stock, Class B Common Stock and Class B Participation Certificates, all transfers, exchanges, conversions, and retirements of stock and participation certificates shall be at book value not to exceed par. Equities shall vote in accordance with Section 350 hereof.

Thus, among other things,

- (a) each new issuance of preferred stock is subject to the approval of a majority of the shares of each class of equities affected by the preference, voting as a class, whether or not otherwise authorized to vote, and
- (b) no Voting Stockholder is entitled to cumulate votes.

710. Ownership and Form of Issuance

Evidence of ownership of capital stock and participation certificates may be by book entry or in definitive form as determined by the Board, except that stock issued to a Farm Credit System institution, may be by book entry or in definitive form as prescribed by the stockholder. Unless otherwise directed by the Board, all classes of equity will be issued in book entry form and ownership shall be confirmed by the Association upon the request of the holder. The Association shall be its own transfer agent in all matters relating to its capital stock and participation certificates.

720. Issue, Rights, Preferences and Limitations

720.1. Class A Non-Voting Stock

- (a) Class A Preferred Stock may be retired only at the discretion of the Board. Class A Preferred Stock shall have preference as to dividends (Section 850). Ownership of Class A Preferred Stock provides no voting rights. Dividends on Class A Preferred Stock are non-cumulative. Subject to part (a) of the last sentence of Section 700 hereof, stock of this class may be issued;
 - (1) to the FCB;
 - (2) in such amounts and to such persons as may be permitted under a plan adopted by the Board;
 - (3) for allocated surplus distributions (Section 830), dividend payments (Section 850), and patronage distributions (Section 860); and
 - (4) in exchange for Class A Common Stock, Class C Common Stock or Class C Participation Certificates converted pursuant to the provisions of Section 740 of these Bylaws and/or Section 4.3A(c)(l)(E)(ii) of the Act.

Only persons to whom Class A Preferred may be issued may own such Class A Preferred. There shall be no preference as between Class A Preferred and Class D Preferred in respect of distributions or liquidation or other matters.

- (b) Class A Common Stock shall be retired at its par value. Ownership of Class A Common Stock provides no voting rights. Shares of Class A Common Stock may be exchanged for shares of Class A Preferred Stock on a one-for-one basis. Since such exchange constitutes a distinct investment decision by the borrower, the Association will, in connection with each such exchange, furnish the borrower with disclosure comparable to the disclosure, pursuant to Section 615.5250(d) of the Regulations, that is supplied to new borrowers. Class A Common Stock may only be issued to and owned by those borrowers who held Class A Common Stock in the Association's predecessor production credit association (Northwest Florida Production Credit Association) immediately prior to the issuance of the amended and restated charter of such association.

720.2. Class B Common Stock

Class B Common Stock does not confer voting rights. It shall be retired at its par value. Class B Common Stock may be issued to and owned by only those borrowers who held Class B Common Stock in the Association's predecessor Federal land bank association and/or production credit association (Northwest Florida Federal Land Bank Association and Northwest Florida Production Credit Association) immediately prior to the issuance of the amended and restated charter of such production credit association.

720.3. Class C Common Voting Stock

Class C Common Stock shall be issued as follows: New borrowers who are eligible to become owners of voting stock (pursuant to the Act and Regulations) must purchase, at the time of the first loan disbursement from the Association, PCA and FLCA, the number of shares of Class C Common Stock determined by the Board to be necessary to contribute to the adequate capitalization of the Association. This amount of stock shall not be less than the lower of the following amounts:

- (1) two hundred (200) shares (\$1,000 par value); or
- (2) one (1) share for each \$250.00 (or fraction thereof) of the amount of the loan.

The amount required to be purchased shall not be greater than 10 percent of the loan amount; however, the Board may require new borrowers to purchase more stock if the Association is deemed not to be in compliance with the capital requirements of the Act and Regulations.

Only persons to whom Class C Common Stock may be issued may own such Class C Common Stock. Owners of Class C Common Stock have voting rights as provided in Section 350. Class C Common Stock may be retired only at the discretion of the Board. Dividends on Class C Common Stock shall be non-cumulative.

Modified April 26, 2019

720.4. Participation Certificates

720.4.1. Class B Participation Certificates

Class B Participation Certificates may only be owned by those borrowers who held Class B Participation Certificates in the Association's predecessor Federal land bank association and/or production credit association (Northwest Florida Federal Land Bank Association and Northwest Florida Production Credit Association) immediately prior to the issuance of the amended and restated charter of such production credit association. Class B Participation Certificates do not confer voting rights. They shall be retired at face value.

720.4.2. Class C Participation Certificates

Class C Participation Certificates shall be issued to (and may be owned only by) borrowers who are not eligible to become owners of voting stock (as defined in Section 720.3). New borrowers who are not eligible to become owners of voting stock must purchase, at the time of the first loan disbursement, the number of Class C Participation Certificate units determined by the Board to be necessary to contribute to the adequate capitalization of the Association; provided, however, that the amount to be purchased shall not be less than nor more than the amount of stock required to be purchased by those borrowers who are eligible to purchase Class C Common Stock. Class C Participation Certificates do not confer voting rights.

Modified April 26, 2019

720.4.3. Class C Participation Certificates may be issued to borrowers or applicants who are:

- (a) rural residents, to capitalize rural housing loans;
- (b) persons or organizations furnishing farm-related services to capitalize their loans; and/or

- (c) other persons or organizations who are eligible to borrow from the Association or participate in Association loans but who are not eligible to hold voting stock (as defined in Section 720.3).

720.4.4. Class C Participation Certificates may be issued for allocated surplus distributions (Section 830), dividend payments (Section 850), and patronage distributions (Section 860).

720.4.5. Class C Participation Certificates may be issued to any person who is not a stockholder but who is eligible to borrow from the Association, for the purpose of qualifying such person for technical assistance, financially related services, and/or leasing services offered by the Association.

720.4.6. Class C Participation Certificates shall be retired at the sole discretion of the Board. Dividends on Class C Participation Certificates shall be non-cumulative.

720.5. Class D Preferred Stock

Subject to part (a) of the last sentence of Section 700 hereof, up to \$25 million of Class D Preferred Stock may be issued to such persons or investors (and may be 32

owned by such persons or investors) as may be permitted under a plan adopted by the Board. Class D Preferred Stock may be retired only at the discretion of the Board. Class D Preferred Stock shall have such terms and dividend rate as may be determined by the Board. Class D Preferred Stock shall confer no voting rights and shall have preference as to dividend(s) (Section 850). Dividends on Class D Preferred Stock shall be non-cumulative. There shall be no preference as between Class A Preferred and Class D Preferred with respect to distributions or liquidation or other matters.

720.6. Transfer of Equities in Lieu of Purchase

The requirements, set forth in preceding subsections of this Section 720 for borrowers to purchase Association stock or participation certificates at the time loans are made to such borrowers, apply only when the capital adequacy requirements applicable to the Association (as provided in the Act and Regulations) are not met. At all other times, the requirements of this Section 720 for borrowers to purchase stock or participation certificates at the time loans are made to such borrowers may be met either through purchase from the Association or through transfer of such stock or participation certificates from authorized holders thereof.

725. Loans Designated for Sale or Sold Into the Secondary Market

Notwithstanding any other provision of these Bylaws, no voting stock or participation certificate purchase requirement shall apply with respect to a loan that is made on or after February 10, 1996, and is designated at the time made for sale into a secondary market; provided that, if a loan designated for sale into a secondary market is not sold within 180 days following the date of such designation, the voting stock or participation certificate purchase requirement otherwise applicable to the loan in the absence of this bylaw provision shall apply.

Notwithstanding any other provision of these bylaws, all outstanding voting stock or participation certificates held by a borrower with respect to a loan shall be retired if (I) the loan is made prior to February 10, 1996, it is sold into a secondary market, and the permanent capital of Association would not, after or due to such retirement, fail to meet the applicable minimum capital adequacy standards established to the Act or Regulations; or (II) the loan is made on or after February 10, 1996, it is designated at the time made for sale into a secondary market, it is sold into such market after the 180 day period beginning on the date of such designation, and the permanent capital of this Association would not, after or due to such retirement, fail to meet the applicable minimum capital adequacy standards established by the Act or Regulations. Such retirement shall be effected within ninety (90) days of the sale of the loan.

730. Transfer

Classes A Preferred and D Preferred, Classes A Common, B Common and C Common, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or to hold such stock or participation certificates as enumerated in Sections 700 and 720, subject to the following conditions:

- (a) transfer shall not be effectuated prior to notification of and acknowledgment by the Association, if no indebtedness is due by the transferor to the Association; and
- (b) transfer shall not be effectuated prior to notification of and written consent of the Association if indebtedness is due by the transferor to the Association.

740. Conversion

740.1. Shares of Class A Preferred and Class D Preferred may be converted to a like amount of Class C Common Stock or Class C Participation Certificates by those holders eligible to borrow from the Association at the time of the first loan disbursement.

740.2. Class C Stock or Class C Participation Certificates shall automatically be converted to Class A Preferred Stock within two years after the holder ceases to be a borrower, as determined by the Board. Since such conversion will be treated as a distinct investment decision by the borrower, the Association will, in connection with such conversion, furnish the borrower with disclosure comparable to that which is supplied to new borrowers.

740.3. Class A Common Stock issued and outstanding may be converted to Class A Preferred Stock at the option of the holder of such Class A Common Stock. Since such conversion is a distinct investment decision by the borrower, the Association will in connection with each such conversion, furnish the borrower with disclosure comparable to that which is supplied to new borrowers.

740.4. Class C Common Stock may be converted to Class C Participation Certificates of equivalent value, subject to the following conditions:

- (1) The borrower shall have previously borrowed money from the Association and purchased Class C Common Stock as required by the Bylaws.
- (2) The borrower shall apply to the Association for a new loan of one of the types set forth in Section 720.4.3 or 720.4.5, requiring him to purchase Class C Participation Shares in accordance with the Bylaws.
- (3) At the time of application for the new loan, the borrower is no longer engaged in the occupation which previously made him eligible under the Act and the Bylaws as an owner of voting stock of the Association.
- (4) If the Association makes the new loan to the borrower, the Association shall convert all Class C Common Stock then held in the borrower's name to Class C Participation Certificates; conversion to be at book value of the Class C Common Stock, not to exceed par value.
- (5) In connection with the conversion, the Association shall provide the borrower with disclosure required by Section 615.5250(a)(3) and (4) of the Regulations; and
- (6) Simultaneously with the conversion and issuance of Class C Participation Certificates, the borrower shall relinquish his voting rights under Section 350.1 of the Bylaws and the borrower's name who was designated to vote the Class C Stock shall be removed from the Voting Stockholder list maintained by the Association pursuant to Section 350.3 of the Bylaws.

Modified April 26, 2019

740.5. Class C Participation Certificates may be converted to Class C Common Stock of equivalent value, subject to the following conditions:

- (1) The borrower shall have previously borrowed money from the Association and purchased Class C Participation Certificates as required by the Bylaws;
- (2) The borrower shall apply to the Association for a new loan requiring him to purchase Class C Common Stock in accordance with the Bylaws;
- (3) If the Association makes the new loan to the borrower, the Association shall convert all Class C Participation Certificates then held in the borrower's name into Class C Common Stock; conversion to be at book value of the Class C Participation Certificates, not to exceed face value;
- (4) In connection with the conversion, the Association shall provide the borrower with the disclosure set forth in Section 615.5250(a)(3) and (4) of the Regulations; and
- (5) Simultaneously with the conversion, the borrower shall have voting rights as provided in Section 350.1 of the Bylaws and the borrower's name who was designated to vote the Class C Stock shall be added to the Voting Stockholder list maintained by the Association pursuant to Section 350.3 of the Bylaws.

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750. Retirements

- 750.1.** Subject to the Regulations, Class A Common Stock, Class B Common Stock and Class B Participation Certificates shall be retired in ways that come within the meaning of “the ordinary course of business” as defined by the Regulations.
- 750.2.** Subject to Section 615.5280 of the Regulations, when the debt of a borrower is in default, the Association may, but is not required to, order the retirement of any stock or participation certificates held by the borrower and the application of the proceeds thereof against the borrower’s indebtedness to the Association. Any such retirement and application of proceeds shall be after notice to the borrower consistent with Section 615.5280(f) of the Regulations and after similar retirement and application of surplus account allocations and equity reserve, if any, owned by the borrower and pledged to the Association.
- 750.3.** Subject to the Act and the Regulations, at any time upon the death of any stockholder who is a borrower of the Association, and after receipt of written request from the borrower’s legal representative, the Board in its sole discretion and upon such terms for method, determination of value and time of payment as the Board by resolution deems appropriate, may retire all or any portion of any stock, participation certificates, surplus allocations or other equities held by or in the name of the borrower (with the exception of Class A Common Stock and Class B equities, stock and participation certificates, which are retired in the “ordinary course of business”, as defined by the Regulations).

760. Impairment

- 760.1.** Any losses suffered by the Association shall first be applied against unallocated surplus as reflected on the books of the Association. To the extent that such losses exceed unallocated surplus, resulting in an impairment of the Association’s allocated surplus or capital stock, such losses shall be allocated in accordance with Section 840.3.
- 760.2.** Impaired stock and participation certificates shall be restored in the sequence provided in Section 840.2 until each share of stock and unit of participation certificates has a book value equal to its par or face value, respectively.

770. Distribution on Liquidation

In the event of the liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to the holders of the outstanding stock and participation certificates in the following order of priority:

- (a) *First*, to the holders of Class A Preferred and 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, Class B Participation Certificates and Class C 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 until an amount equal to the aggregate amount of such notices has been distributed;
- (d) *Fourth*, to the holders of allocated surplus evidenced by nonqualified written notices of allocation until an amount equal to the aggregate amount of such notices has been distributed;
- (e) *Fifth*, all unallocated surplus accrued after January 1, 1995 (the effective date of this bylaw amendment), shall be distributed to past and present Patrons on a patronage basis; and
- (f) *Sixth*, any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates.

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

780. Lien and Security Interest

Except with respect to stock held by a Farm Credit System institution, the purchaser of all stock and/or participation certificates shall be deemed to have granted to the Association, PCA and FLCA, and the Association, PCA and FLCA, as applicable, shall have, a first lien and security interest on all allocated surplus, stock and participation certificates in the Association owned by such borrower as additional collateral for any indebtedness of the borrower to the Association, PCA and FLCA.

785. Amendment to Capitalization Bylaws and Issuance of Preferred Stock

Any amendment to Articles VII and VIII of these Bylaws or to the capitalization bylaws of FLCA or PCA, other than those of a strictly technical nature not affecting substantive rights, shall not become effective unless approved by Voting Stockholders at a duly authorized meeting of Members. Any amendment authorizing the issuance of preferred stock shall not become effective unless approved by a majority of the shares of each class of equities affected by the preference, voting as a class, whether or not such classes are otherwise authorized to vote.

795. Similar Entity Participations

As provided in Regulation § 613.3300, the Association shall have the authority, with Board approval, to purchase a participation interest in a loan to a "similar entity" (as defined in said Regulation) not to exceed of 25%, of its total capital.

Adopted June 2004

ARTICLE VIII – EARNINGS, SURPLUS, DIVIDENDS, PATRONAGE DISTRIBUTIONS

800. Capitalization Plan

The Board shall adopt, maintain, and amend from time to time, as the Board deems appropriate, a capitalization plan ("Plan") for the Association. The Plan shall be designed to enable the Association to meet the capital adequacy standards established in the Regulations. Subject to these Bylaws, the capitalization plan shall provide for, among other things, the manner in which the Association's stock, participation certificates and allocated equities shall be issued, transferred, and retired. In connection with the Plan, no dividends shall be cumulated.

810. Interest Rates

The Board shall authorize such interest rates or interest rate programs for use by the Association as are determined to be within the lending standards prescribed by the FCB. It shall be the objective of the Association to provide the types of credit needed by eligible borrowers, at a reasonable cost, on a sound business basis, taking into account the marginal cost of money to the Association, necessary reserves and expenses to the Association, and the services provided to borrowers and Members.

820. Surplus Accounts

As contemplated in the Plan, the Association shall create an unallocated surplus account and an allocated surplus account. The Association shall maintain the unallocated surplus account and, subject to Section 830.1, may maintain the allocated surplus account. The minimum aggregate amount of these two accounts shall be determined by the Board. At the end of any fiscal year, if the surplus accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the requirements of any general financing agreement or other commitments of the Association, the Association shall apply earnings for the year to the unallocated surplus account in such amounts as may be determined necessary by the Board.

830. Allocated Surplus Account

830.1. As contemplated in the Plan, the Association shall create and, subject to the Regulations and Association policy, shall maintain an allocated surplus account consisting of earnings held therein and allocated to borrowers on a patronage basis pursuant to Section 860. Allocated surplus may be issued as either "qualified written notices of allocation" or "non-qualified written notices of allocation," or both, as those terms are defined under Internal Revenue Code ("Code") Section 1388:

(a) All allocations in the form of qualified written notices of allocation shall be issued in annual series and shall be identified by the year of issuance. Each such series shall be retired fully or on a pro rata basis, only at the discretion of the Board, in order of issuance by year as funds are available.

(b) All allocations in the form of non-qualified written notices of allocation shall be issued in annual series and identified by the year of issuance. Each annual series may be subdivided between two or more classes. Each such series, or class thereof, shall be retired in the discretion of the Board.

Only those persons to which allocated surplus may be issued may own such allocated surplus. Notice of allocations to evidence the amount of earnings distributed to each Patron shall be given to all participants. In the event of a net loss for any fiscal year, such allocated surplus account shall be subject to impairment in the order specified in Section 840.3, and on the basis of latest allocations first.

830.2. The Association, PCA and FLCA, as applicable, shall have a first lien and security interest on all surplus account allocations owned by any borrowers, and all distributions thereof, as additional collateral for such borrowers' indebtedness to the Association, PCA and FLCA.

- 830.3.** 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 surplus account allocations owned by such borrower to be applied against the indebtedness based on its fair value. Any such retirement and application of surplus account allocations to indebtedness shall be before similar retirement and application of equity reserve, if any, and capital stock owned by the borrower.
- 830.4.** Any surplus allocated to a borrower after October 5, 1988 shall be retired at the sole discretion of the Board. There is no express or implied right granted to a Patron to have such allocated surplus retired upon request.
- 830.5.** Upon approval of the Board, any retirement of allocated surplus may be paid, oldest allocations first, in cash, in other forms of available equities or applied against any of the Patron's indebtedness to the Association, PCA and FLCA in accordance with Section 830.3. In no event shall such retirement reduce the Association's permanent capital below the minimum required by the Regulations. Retirements of less than the full amount of allocations issued in the same series shall be on a pro rata basis. Any part of a surplus allocated distribution in stock to one Patron that is less than the par amount of one share may be held by the Association and included with subsequent distributions.
- 830.6.** All qualified notices of allocation shall satisfy the definition of a "qualified written notice of allocation" as defined in Section 1388 Code. All non-qualified notices of allocation shall satisfy the definition of a "non-qualified written notice of allocation" as also defined in Section 1388 of the Code.
- 830.7.** A record of the holders of allocated surplus shall be kept and maintained by the Association. Allocations of "qualified" amounts will be maintained separately from allocations of "non-qualified" amounts. Such surplus accounts shall be transferable only to the Association or to an eligible Member of the Association in the manner established by the Board, and no transfer thereof shall be binding upon the Association unless so transferred on the books of the Association.

840. Application of Earnings or Losses

- 840.1.** As soon as practicable after the end of each accounting period, the Association shall (i) determine the net earnings of the Association for such period before the provision for income taxes ("Net Earnings"); (ii) the amount thereof which constitutes net earnings from Patronage Business (as defined below); and (iii) the amount thereof which constitutes net earnings from other business ("other business").
- 840.2.** Any Net Earnings determined pursuant to Section 840.1 shall be applied in the following order of priority:
- (a) *First*, the restoration of the amount of the impairment, if any, of Class A Preferred and Class D Preferred Stock issued and outstanding, if any, until such stock is no longer impaired;
 - (b) *Second*, to the restoration of the amount of the impairment, if any, of Class A Common Stock, Class B Common Stock, Class C Common Stock and Class B and Class C Participation Certificates issued and outstanding, until such stock and equities are no longer impaired;
 - (c) *Third*, to the restoration of the amount of impairment, if any, of allocated surplus in the reverse order of such impairment.
 - (d) *Fourth*, to an unallocated surplus contingency reserve, if deemed necessary by the Board;
 - (e) *Fifth*, for payment of dividends on stock in accordance with these Bylaws if authorized by the Board;

The amounts so applied under subsections (a) through (d) above shall be treated as coming first from Net Earnings from other business and then from Net Earnings from Patronage Business. The amount so applied under subsection (e) shall be treated as coming from Net Earnings from Patronage Business and Net Earnings from other business on a pro-rata basis.

After the applications above, any remaining Net Earnings (to the extent attributable to Patronage Business) may be distributed as patronage refunds under Section 860 hereof, which refunds may be paid in the form of allocated surplus, stock, cash or any combination of the above; any remaining Net Earnings from "other business" may be utilized to pay or provide for income taxes or credited to unallocated surplus.

- 840.3.** All net losses determined pursuant to Section 840.1 ("Net Loss"), to the extent the Net Loss exceed unallocated surplus, shall, in the Board's discretion and in proportions as determined by the Board (except as may be otherwise provided in the Act), be either (i) retained as an unallocated deficit, or (ii) treated as impairing allocated surplus and stock in the following order:

- (a) *First*, impairment of allocated surplus evidenced by nonqualified written notices of allocation – retained surplus in the reverse order of year of issuance and pro-rata by year of issuance, until such allocated surplus is fully impaired;
- (b) *Second*, impairment of allocated surplus evidenced by nonqualified written notices of allocation – allocated surplus in the reverse order of year of issuance and pro-rata by year of issuance, until such allocated surplus is fully impaired;
- (c) *Third*, impairment of allocated surplus evidenced by qualified written notices of allocation in the reverse order of year of issuance and pro-rata by year of issuance, until such allocated surplus is fully impaired;
- (d) *Fourth*, Class A Common Stock, Class B Common Stock, Class C Common Stock and Class B Participation Certificates and Class C Participation Certificates issued and outstanding, pro rata until such stock and participation certificates are fully impaired;
- (e) *Fifth*, Class A Preferred and Class D Preferred Stock issued and outstanding, if any.

Impairments shall be considered as being applied pro rata to each share and/or unit outstanding in the class. In the event the Association sustains a loss for any fiscal year in any earnings pool, the Association may at the discretion of the board or directors (a) carry such loss forward to subsequent years within such earnings pool, or (b) apportion such loss among the Patrons participating in such earnings pool on a cooperative basis and recoup the amount due from each Patron by offsetting it, in whole or in part, against patronage due such Patron in future years or against written notices of allocation of such Patron or (c) offset the loss attributable to such earnings pool against the net earnings attributable to other earnings pools in accordance with Code Section 1388(j) including notification to Patrons required by such Code Section.

Adopted June 2004

850. Dividends

- 850.1.** When approved by the Board in accordance with the Regulations, dividends may be paid on the capital stock and participation certificates of the Association, as the Board may determine by resolution; provided, however, that no dividend rate shall exceed twenty percent (20%) of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Class A Preferred and Class D Preferred Stock, or on all classes of stock and participation certificates. Subject to the provisions herein, the rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividend paid on Classes A, B or C Common Stock or participation certificates for such year. The rate of dividends on Class D Preferred Stock and Class A Preferred Stock shall be determined by the Board but shall not be greater than twenty percent per annum. The rate of dividends on Class A, B and C Common Stock and participation certificates shall be at the same rate per share. Notwithstanding the foregoing, dividends shall not be paid on common stock and participation certificates in any year with respect to which the Association has obligated itself to distribute patronage under Section 860.
- 850.2.** Dividends may be paid to holders of record on the effective date of declaration or at such previous date as may be set by the Board by resolution.
- 850.3.** Dividends on capital stock and participation certificates may be paid in cash. Class A Preferred or Class D Preferred, or partly in cash and partly in such stock, except that dividends on capital stock held by a Farm Credit System institution shall be paid in cash. Any part of such dividends to one owner payable in stock that is less than \$5.00 may be distributed in cash or held by the Association and cumulated with subsequent dividends, until the retained dividends equal \$5.00 so that the dividends may be distributed as one whole share of Class A Preferred or Class D Preferred Stock.
- 850.4.** Dividends on subsequently authorized stock shall be paid in accordance with, and subject to, the resolution of stockholders authorizing the issuance of such stock.
- 850.5.** Notwithstanding other provisions of this Section, no dividend may be declared if permanent capital would be reduced by payment of said dividend, unless the Association, after recording the liability, will meet the capital adequacy standards.

860. Patronage Distributions

- 860.1.** Prior to the beginning of each fiscal year, the Board, by resolution (the "Obligating Resolution"), may obligate the Association to distribute to Patrons the available consolidated net earnings of the Association, PCA and FLCA from business done with or for Patrons on a patronage basis ("Patronage Business") as computed under Generally Accepted Accounting Principles. For

purposes of this Article VIII and Section 770, Patrons include those individuals or entities who borrow or purchase services from the Association, PCA or FLCA, and other financial institutions who participate/sell loans to the Association, PCA or FLCA, as specifically identified in the Obligating Resolution. All business and transactions done with or for Patrons shall be presumed to be Patronage Business unless the Association identifies the particular business or transaction in advance as not being done with the Patron on a patronage basis. Business and transactions so identified shall be included among "other business." All Patronage Business between the Association and Patrons shall be subject to and shall include as part of its terms, whether the same has been expressly referred to in said transaction or not, the provisions of this Article VIII of the Bylaws of this Association.

Adopted June 2004

- 860.2.** All patronage distributions shall be in the proportion that the amount of interest and other income earned by the Association, PCA and FLCA from each Patron with respect to Patronage Business bears to the total interest and other income earned by the Association, PCA and FLCA from all Patronage Business during the fiscal year, except that another proportionate patronage basis may be used with approval of the Board. The Association may establish earnings pools for the payment of patronage distributions on a rational and equitable basis such that each Patron receives that Patron's fair share of the earnings of the Association, PCA and FLCA and bears that Patron's fair share of the expenses of the Association, PCA and FLCA. The Board shall retain discretion not to pay patronage distributions on one or more of such earnings pools, provided that the Board exercises that discretion by passing appropriate Board resolutions before the beginning of the fiscal year for which patronage distributions will not be paid on one or more earnings pools and provided further that all Patrons are treated fairly and equitably.

Adopted June 2004

- 860.3.** Net Earnings from Patronage Business available for patronage distributions shall include those earnings remaining after first making the applications as required in Section 840.2. Such earnings may be further reduced by an amount allocated for the payment of dividends on Association equities as authorized by these Bylaws and the Board, the transfer to unallocated surplus of the amount, if any, established by the capitalization plan, and the provision of an amount for income taxes (if necessary). The Board, in its resolution, may establish a minimum level of available earnings and if the available earnings fall below this level, no patronage distribution will be made.

Adopted June 2004

- 860.4.** If the Association will meet 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 surplus 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 non-qualified basis, or a combination of both, as determined by the Board. All qualified notices of allocated surplus shall satisfy the definition of a "qualified written notice of allocation" as defined in Section 1388 of the Code. All non-qualified notices of allocated surplus shall satisfy the definition of a "non-qualified written notice of allocation" as set forth in Section 1388 of the Code. Any part of a patronage distribution in Class A Preferred or Class D Preferred Stock to one borrower that is not a multiple of \$5.00 may be distributed in cash or held by the Association for the borrower and included in a subsequent distribution.

Adopted June 2004

- 860.5.** If a borrower is in default, any part of the patronage distribution to that borrower, except for the minimum required cash portion, may, at the discretion of the Association, be applied against the borrower's indebtedness to the Association, PCA and FLCA.
- 860.6.** In the event that the total patronage distribution to a Patron is less than the minimum amount as determined annually by the Board, prior to the end of the taxable year, such distribution may be (i) paid entirely in cash, (ii) applied to the Patron's indebtedness; or (iii) be retained by the Association.

Each person who hereafter applies for and is accepted to membership in this Association and each Member of this Association on the effective date of this bylaw who continues as a Member after such date shall, by such act alone, consent that the amount of any distributions with respect to his patronage, which are made in, or evidenced by, qualified written notices of allocation (as defined in Code Section 1388), including patronage allocations of surplus account and patronage refunds paid in stock of the Association, and which are received by the Member from the Association, will be taken into account (as income) by

the Member at their stated dollar amounts in the manner provided in Code Section 1385(a) in the taxable year in which such qualified written notices of allocation are received by the Member. Each member also consents, by such act alone, to take into account (as income) in the same manner, the amount of any distributions with respect to patronage if the Member receives written notice from the Association that such amount has been applied against the Member's indebtedness to the Association, PCA and/or FLCA. Each Member further consents that the amount of any distributions with respect to his patronage which are made in, or evidenced by, nonqualified written notices of allocation (as defined in Code Section 1388) will be taken into account (as income) by the holder in the taxable year in which such nonqualified written notices of allocation are redeemed.

Adopted June 2004

- 860.7.** The Association may obtain the written consent of each Patron that the amount of any distributions with respect to the Patron's patronage, which are made in, or evidenced by, qualified written notices of allocation (as defined in 26 U.S.C. 1388), including patronage allocation of surplus account, patronage refunds paid in Stock or distributions with respect to patronage that has been applied to the Patron's indebtedness to the Association, PCA or FLCA and for which the Patron has received written notice, will be taken into account (as income) by the Patron at their stated dollar amounts in the manner provided for in 26 U.S.C. 1385(a) in the taxable year in which such qualified written notices of allocation are received by the Patron. The Association may further obtain the written consent of each Patron that the amount of any distributions with respect to the Patron's patronage, which are made in, or evidenced by, non-qualified written notices of allocation (as defined in 26 U.S.C. 1388), will be taken into account (as income) by the Patron in the taxable year such non-qualified written notices of allocation are redeemed. The form of consent shall be prescribed by the Board, except that it shall be continuing in effect until revoked by the holder, and it may be included as part of the loan application or other appropriate form signed by borrowers. Consent may also be obtained by use of a qualified check in the manner provided for in 26 44 U.S.C. 1388.
- 860.8.** PCA and FLCA - In the event of an Authorization Event under Section 210 hereof, where the Association arranges for the provision of credit and/or related services to its Patrons through PCA and/or FLCA, and such Patrons avail themselves of the arrangements made and maintained by the Association by borrowing or acquiring related services from PCA and/or FLCA, all net earnings or loss attributable to such provision of credit and/or related services shall be treated as net earnings or loss of the Association from business done with its Patrons and all business done with PCA and FLCA shall be treated as business done with the Association.