
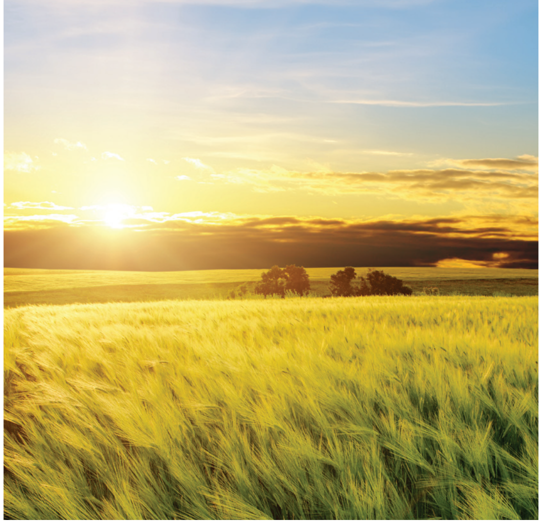



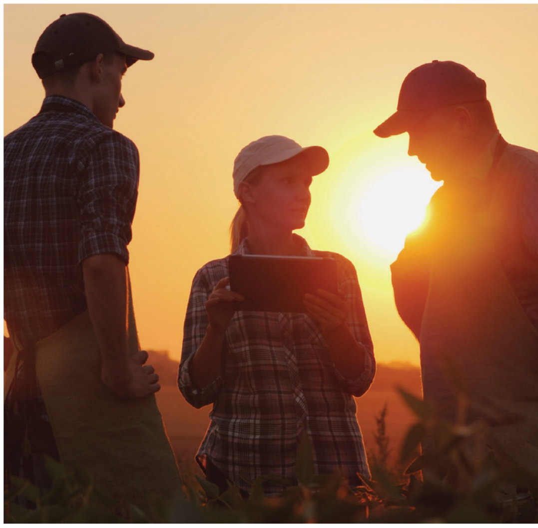



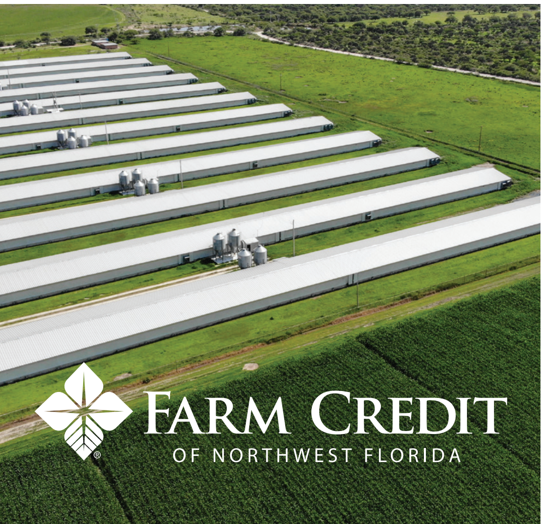

FARM CREDIT
OF NORTHWEST FLORIDA

2023 ANNUAL REPORT

Farm Credit of Northwest Florida, ACA

2023 Annual Report

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Management

John R. Gregory .... President & Chief Executive Officer
Abby Todd .... Chief Financial Officer
Chuck Thiele .... Chief Credit Officer
DeAndrea Barber .... Chief Operations Officer
Dorislynn White-Padgett .... Director of Human Resources
Michael Digmon .... Chief Lending Officer

Board of Directors

D. Mark Fletcher .... Chairman
R. Douglas Walker .... Vice Chairman
Damon Boutwell .... Director
Joshua Churchwell .... Director
Ernest C. Fulford .... Director
Jacob Gilmore .... Director
Dana Powell .... Director
Roy A. Scheffer .... Director
Glen Strange .... Director
Michael Thompson .... Director
David Yoder .... Director

Message from the President

Dear Members,

On behalf of the Board of Directors, management and staff of Farm Credit of Northwest Florida, ACA (Northwest Florida), I am pleased to present the 2023 Annual Report for your Association. This past year had challenges due to weather, the economy and changes made by the Association to its internal processes. In this context, I'm proud to write to you about the good work the team did in 2023 to deliver another year of strong financial performance for the Association and its members.

Financial Performance & Returns to Members and Our Communities:

Northwest Florida made more than $120 million in new loans in 2023. This is our third year in a row above the $100 million mark and fourth consecutive year of growth. Good loan production drives good profitability: $7.1 million of net income in 2023 beat 2022 net income despite Northwest Florida receiving one million dollars less in special patronage from its funding bank. Core business income (i.e., from locally originated loans) is the best in more than a decade – I'm highlighting this again in 2024 because the Association's ability to grow its earnings by focusing on what we can control, regardless of what occurs, is essential to remaining a strong, locally owned Association for the long haul. To prepare for future growth, the Board of Directors adopted a five-year goal for various key performance measures last year (e.g., capital, patronage, credit quality, etc.) – we ended 2023 well ahead of the plan for all measures.

Aside from numbers and performance measures, the heart of a Farm Credit Association is providing a reliable flow of capital into rural communities to support the professional and personal ambitions of our members and, in turn, those communities. In that context, though the $120 million of new loan volume is outstanding, the most important takeaway to me is the 371 individual loans made by the Association adding up to that $120 million. Northwest Florida's two best sources of business are repeat business with and referrals from current members. The team understands that serving the membership is not just a job but is "the job" because it is integral to the long-term success of the Association. Given the changes both at the Association and within the AgFirst District to improve Farm Credit for members (e.g., new accounting systems, new loan origination systems, etc.), a real concern is the work to make these changes happen will negatively impact the membership in the short-term. With this in mind, the team works hard to keep the focus on the members. Though we all recognize the team for the work needed to make 371 loans in one year; what motivates us most is that so many members trusted us enough with your business to work with us again or refer your friends, family and colleagues – from all of us at Northwest Florida, thank you!

In my opinion, the foundation of the Farm Credit System is its local ownership and its cooperative structure. It is truly what separates Farm Credit from commercial lenders. The most concrete example of this cooperative structure is Northwest Florida's payment of earnings to members through patronage. When the team works to improve efficiency, make a new loan or modify a current loan to improve earnings, the increased profitability does not go to some distant collection of stockholders but is distributed as patronage to all of you as members. It's a virtuous cycle with the team working to improve and strengthen your Association, which encourages you all to do additional business with it and in turn, the Association distributes the resulting profits to you. The Association's strong performance in 2023 allowed your Board of Directors to declare a $4.4 million cash distribution to members, which equals roughly a one percent effective reduction in your interest rate.

It is customary for my president's letter to discuss patronage (indeed, many joke it is the only part of my letter folks actually read), yet I'd argue that all members should take pride in the Association's charitable works beyond patronage. Farm Credit's mission is to support agriculture and rural communities in America. Northwest Florida supports this mission locally through its Rooted in Giving campaign, its support of organizations focused on young, beginning, and small farmers, and its AgVocator Scholarship. Not counting staff time volunteering at events, this is well over $100,000 per year given by Northwest Florida in scholarships, support and donations – the Board of Directors and I are grateful to the staff's generosity and the membership for its business because both make this support possible.

Economic Outlook:

Much like 2023, the coming year looks to have challenges from an economic perspective, particularly with commodity prices versus input prices and weather for our farmers. Even with multiple years of better-than-budget loan growth, Northwest Florida remains well capitalized with excellent credit quality and a strong level of allowance. Constancy is an elemental part of Farm Credit. The system was founded more than 100 years ago (also during a period of uncertainty) to provide a reliable flow of money into agriculture and rural America. As a member, I want you to know though finance and agriculture are cyclical businesses, the staff and management work hard to manage the risk-bearing capacity of Northwest Florida so we can continue serving our members and our territory, regardless of any economic uncertainty.

Retirements & Thanks:

I want to conclude by recognizing a significant change in our Board in 2023 with the retirement of Director Cindy Eade and Director Richard Terry in 2023. At 20 and 31 years of respective service to the Association, Directors Eade and Terry were stalwarts of the Board. Both chaired the Board while also being part of many important milestones for Northwest Florida: the merger creating AgFirst, the merger creating our Association as we know it today, generations of AgFirst and Association management, the highs of strong growth, and the hard work fighting for survival and independence plus all that goes into their own families and operations. Throughout all of this, these two have been a pair of steady hands helping to guide the Association and serve the membership. Their retirement is bittersweet to me because Cindy and Richard are the last two Directors who served on the Board when I started in 2008. We all are grateful to them for their cheerful service to the Association, the members, and our communities – thank you. These two retirements allowed us to welcome two new Directors in 2023: Josh Churchwell, who represents the eastern membership, and Allen Scheffer, who represents the central membership. Josh and Allen are both strong Board members and it is a comfort to know the Association will continue to be well-managed.

Going into my third year as your CEO, I'm grateful for this opportunity. Being president of Northwest Florida is the best job I've ever had in terms of challenge and fulfillment and being able to quickly see the results of the team's hard work in our business and in the success of our members. Though 2024 looks to be a year with challenges and changes, I'm very optimistic about the trajectory of your Association to serve the membership, our communities, and our team. If you ever need something from me, have a question or just want to talk, please contact me at jgregory@farmcredit-fl.com or call 850-209-2649. Thank you for trusting Farm Credit of Northwest Florida as your financial partner.

Sincerely,

John R. Gregory
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 Northwest Florida, ACA (Association) in accordance with accounting principles generally accepted in the United States and are 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 Northwest 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.

D. Mark Fletcher

D. Mark Fletcher
Chairman of the Board

John R. Gregory
Chief Executive Officer

Abby Todd

Abby Todd
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					
Loans	**390,933**	354,384	318,613	299,608	284,180
Allowance for loan losses	**(1,174)**	(4,980)	(4,968)	(4,912)	(4,529)
Net loans	**389,759**	349,404	313,645	294,696	279,651
Equity investments in other Farm Credit institutions	**5,974**	4,268	2,932	3,018	3,370
Other property owned	**—**	14	45	—	4
Other assets	**9,475**	7,413	10,392	9,037	8,364
Total assets	**$ 405,208**	$ 361,099	$ 327,014	$ 306,751	$ 291,389
Notes payable to AgFirst Farm Credit Bank*	**$ 300,170**	$ 264,071	$ 230,976	$ 213,221	$ 200,279
Accrued interest payable and other liabilities with maturities of less than one year	**9,747**	7,899	9,571	8,891	7,135
Total liabilities	**309,917**	271,970	240,547	222,112	207,414
Capital stock and participation certificates	**1,495**	1,444	1,393	1,274	1,132
Retained earnings					
Allocated	**36,420**	36,420	36,420	36,420	37,244
Unallocated	**57,376**	51,265	48,654	46,945	45,599
Total members' equity	**95,291**	89,129	86,467	84,639	83,975
Total liabilities and members' equity	**$ 405,208**	$ 361,099	$ 327,014	$ 306,751	$ 291,389
Statement of Income Data					
Net interest income	**$ 11,452**	$ 9,694	$ 9,257	$ 8,876	$ 8,851
Provision for (reversal of) allowance for credit losses	**(552)**	(192)	—	—	(207)
Noninterest income (expense), net	**(4,930)**	(2,926)	(1,179)	(1,680)	(2,644)
Net income	**$ 7,074**	$ 6,960	$ 8,078	$ 7,196	$ 6,414
Key Financial Ratios					
Rate of return on average:					
Total assets	**1.86%**	2.08%	2.56%	2.49%	2.26%
Total members' equity	**7.37%**	7.82%	9.25%	8.34%	7.47%
Net interest income as a percentage of average earning assets	**3.09%**	2.92%	2.96%	3.11%	3.16%
Net (chargeoffs) recoveries to average loans	**0.066%**	0.062%	0.018%	0.134%	0.074%
Total members' equity to total assets	**23.52%**	24.68%	26.44%	27.59%	28.82%
Debt to members' equity (:1)	**3.25**	3.05	2.78	2.62	2.47
Allowance for loan losses to loans	**0.30%**	1.41%	1.56%	1.64%	1.59%
Permanent capital ratio	**23.06%**	24.02%	26.02%	27.56%	28.56%
Common equity tier 1 capital ratio	**23.00%**	23.72%	25.69%	27.22%	28.20%
Tier 1 capital ratio	**23.00%**	23.72%	25.69%	27.22%	28.20%
Total regulatory capital ratio	**23.31%**	24.97%	26.95%	28.47%	29.46%
Tier 1 leverage ratio**	**23.27%**	24.49%	26.51%	28.38%	29.20%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**22.89%**	24.08%	26.21%	28.21%	28.32%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 4,400**	$ 4,000	$ 6,369	$ 5,850	$ 3,250

** 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 Northwest 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 over 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 Northwest 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 the 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.farmcredit-fl.com***, or by calling 1-850-526-4910 or writing Abby Todd, Chief Financial Officer, Farm Credit of Northwest Florida, P.O. Box 7000, Marianna, FL 32447. 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 Report 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 animals 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 is 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 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 an important 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 5.0 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 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 the 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 a 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 Consolidated 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.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The Association's Risk Management Committee, which is comprised of senior management and a member of the Board of Directors, evaluates the adequacy of the allowance on a quarterly basis. The evaluation considers factors which include, but are not limited to, loan loss experience, portfolio quality, loan portfolio composition, commodity prices, agricultural production conditions, and general economic conditions.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and underlying security that, by nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

  Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *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 individually evaluated 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

Florida Economy

The University of Central Florida's Institute for Economic Forecasting forecasts low growth and a possible recession for the U.S. economy in 2024; however, Florida's economy is expected to grow through 2027. UCF projects annual Florida Real Gross State Product (GSP) increased by 1.6 percent in 2023 after growing by 4.0 percent in 2022 as the state continued to recover from the impact of the COVID-19 public health shutdowns. Florida's Real GSP is expected to grow an average of 1.6 percent during 2023-2027, with a possible recession projected to slow growth to 1.1 percent in 2024. Growth for Florida's economy over the next four years is expected to be on par with the forecasted real GDP growth for the U.S. economy. Florida payroll job growth is projected to be 2.4 percent in 2023, following growth of 5.7 percent in 2022. Total payroll jobs are expected to decelerate by 1.6 percent in 2024 and contract by 0.4 percent in 2025 before expanding by 1.0 percent in 2026 and 1.6 percent in 2027. Payroll job growth is forecasted to slightly underperform the national economy until 2026. Labor force growth in Florida is projected to average 1.3 percent from 2023-2027. After shrinking 2.3 percent in 2023, Florida's labor force growth is expected to decelerate in 2024-2026 due to the slowed economy.

Additional key factors for the Florida economy include:

- Sectors expected to have the strongest average job growth during 2024-2027 are Financial Services, Education & Health Services, State & Local Government, Federal Government, and Leisure & Hospitality.
- Housing starts have declined due to mortgage rates near 8.0 percent. Total housing starts are forecasted at 183,100 in 2023, 158,700 in 2024, 154,500 in 2025, 150,900 in 2026 and 148,380 in 2027. Higher interest rates have had a dampening effect on home construction activity.
- Real personal income growth is expected to average 2.8 percent during 2023-2027. Florida's average real personal income growth is projected to be 0.7 percent higher than the national rate over 2023-2026.
- Retail sales are forecasted to grow at an average pace of 1.0 percent during 2023-2027, with 2027 hitting a growth rate of 4.2 percent.

The Florida housing market shows a market for existing housing that persists with an increasing but still diminished level of inventories. The October 2023 single-family home report released by Florida Realtors® reflects price appreciation due to depleted inventory. The median sales price for single-family homes increased by $8,000 in October 2022, year over year, and now stands at $410,000, an annual increase of 2.0 percent. Inventories of single-family homes represent just 3.5 months of supply, indicating an inventory balance that is skewed in favor of sellers in the single- family market. Distressed sales of single-family homes in the form of short sales continue to remain low, down 46.9 percent. However, foreclosure/REO sales, have increased by 57.3 percent from October 2022 through October 2023.

The housing market in Florida is challenged by the burden of high prices and rising mortgage rates. Economic and job growth in Florida is forecasted to slow slightly if the U.S. economy enters recession. More baby boomers continue to reach the end of their working lives, and this bodes well for continued population growth via the in-migration of retirees as well as job seekers to Florida.

Overall, the Florida economy is forecasted to experience a slowing economy at the end of 2023, through the start of 2025. Deceleration of growth is projected to be mild in 2023-2027. Nationwide projections for agriculture indicate a decline in cash receipts for top commodities such as corn, cotton, dairy and poultry.

Regional Economy

The Northwest Florida/Panhandle area has a permanent population of 1.58 million and an estimated workforce of over 695,000. The Association's eighteen county region includes over 25 percent of the state's counties and 20 percent of Florida's land mass. The area's economy is driven by tourism, government, service and manufacturing industries. Three research universities – Florida State University, Florida A&M University, and the University of West Florida – provide cutting-edge research in a variety of disciplines. The region's military facilities provide contract opportunities for a number of local, regional and national companies, while also providing a source of skilled and dedicated workers after they separate from the military.

The regional economy as a whole has recovered from the trough of the COVID-19 pandemic. Employment in the eighteen-county region is up 2.7 percent from June 2022. Florida statewide employment is up 2.3 percent over the same period. Employment growth has been uneven within the Association's territory, albeit mostly positive growth over its 18-county territory. Multiple inland counties recorded stronger employment growth than MSA regions.

Anchored by the metro areas of Tallahassee to the east and Pensacola to the west, with local economies in between driven by agriculture, tourism and a strong military base presence, economic growth in the Panhandle is typically less cyclical than in peninsular Florida. Economic growth is forecasted to experience mixed results throughout the Florida Panhandle during 2024-2027.

Employment in service-related industries is currently leading growth in the Panhandle. During 2023-2026, Financial Services, Education & Health Services, Other Services, and Professional & Business Services are forecasted to experience growth. Operations at area military bases have been expanded over the past several years and, unless there is a significant cut in defense spending, these facilities should continue to be positive economic growth engines for the foreseeable future.

The absence of a state income tax and the presence of a hospitable climate should help to attract retirees and others to the Panhandle region in the coming years.

Agricultural Economy

The Agricultural economy in Northwest Florida experienced an overall average to below-average year in 2023. Growing conditions were dry in the western portion of the territory, which had an impact on yield and quality. Weather conditions have been generally favorable during harvest, resulting in no significant delays. Please see below for additional information on the primary commodity groups served by the Association.

Forestry –
The southern United States continues to be a world leader in traditional and emerging timber products due to a favorable exchange rate, strong infrastructure of mills, productive forestland, and updated market strategies. The south-wide "stumpage prices" for one of the five major products (pine chip-n-saw) in the Association's territory increased year over year. However, housing starts were behind 2022

levels on a year-over-year basis. Timberland values remained steady in 2023. Bioenergy and wood pellet industries continue to develop and grow.

Row Crops –
World cotton demand is projected to increase to 115.8 million bales in 2023/24. World consumption is expected to outpace supply, resulting in a decrease in ending stocks to 79.9 million bales. In the U.S., the 2023 harvested area was forecasted at 8.0 million acres compared with 7.9 million acres in 2022. The national yield is estimated at 780 pounds per harvested acre compared with 855 pounds in 2022. Total U.S. cotton production in 2023 is projected at 12.5 million bales, a decrease of 1.5 million bales or 11 percent over the 2022 crop. Cotton prices for 2023 varied from the lower $0.74 per pound range to over $0.90 per pound, with the price softening leading into harvest time.

U.S. corn production is estimated at 15.2 billion bushels in 2023/24, an increase of 1.5 billion bushels from the previous year. Yields are forecasted at 174.9 bushels per acre. Growers in the U.S. planted approximately 94.9 million acres in 2023, an increase from the previous year. U.S. ending stocks are projected to increase to 2.2 billion bushels. The majority of corn grown in Northwest Florida is used for feed and sold locally, often receiving a positive basis, resulting in a cash price higher than reported national prices.

Livestock –
The U.S. cattle industry has a history of cycling between expansion and contraction phases that generally span ten years. The USDA reported slight declines in herd size in 2022 through 2023. U.S. beef sector production is forecasted to contract in 2023. Profitability has remained relatively unchanged year over year as the increase in cattle prices in 2023 was offset by generally higher feed expenses. The USDA forecasts a continued decline in beef production for 2024. Exposure to swine and poultry within the Association's territory is very limited.

Peanuts –
Acreage for the 2023 crop was up 200,000 acres from 2022 plantings of 1.45 million acres. Harvested acres in 2023 were forecasted at 1.60 million acres, an increase of 15.6 percent from 2022. Early reports indicate the peanut crop yield will be below average, with average yields of 3,740 pounds per acre. Production is forecasted to increase by 7.9 percent in 2023 to 5.98 billion pounds. Domestic peanut use has continued to increase, with exports slightly increasing in 2023. Total use is projected to have little expected change in ending stocks to 2.03 billion pounds. Peanut prices on the national level averaged approximately $600/ton in 2023.

Dairy –
In 2023, average milk prices decreased $5.00 per CWT from 2022 levels. Milk prices started the year off much stronger; however, pricing began falling by summer. U.S. milk production in 2023 was anticipated to be 227.1 billion pounds. The national dairy herd declined slightly in 2023 to 9.395 million head. Exports continue to remain a key driver for milk prices. Feed costs decreased in 2023; however, they were not in proportion to milk prices resulting in a contracting dairy margin.

LOAN PORTFOLIO

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

The gross loan volume of the Association as of December 31, 2023 was $390,933, an increase of $36,549 or 10.31 percent compared to $354,384 at December 31, 2022, which represented an increase of $35,771 or 11.23 percent compared to $318,613 at December 31, 2021. Net loans outstanding (gross loans net of the allowance for loan losses) at December 31, 2023 were $389,759, an increase of $40,355 or 11.55 percent compared to $349,404 at December 31, 2022, which represented an increase of $35,759 or 11.40 percent compared to $313,645 at December 31, 2021. Net loans accounted for 96.19 percent of total assets at December 31, 2023, compared to 96.76 percent of total assets at December 31, 2022 and 95.91 percent of total assets at December 31, 2021. The increases in gross loan volume and net loans outstanding in 2023 were due to increases in net originated loans, purchased participation loans and decreases in sold participation loans, partially offset by a decrease in nonaccrual loans.

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

	December 31,					
Loan Type	**2023**		**2022**		**2021**	
	(dollars in thousands)					
Real estate mortgage	$ 273,532	69.97%	$ 251,739	71.04%	$ 224,981	70.61%
Production and intermediate-term	64,553	16.51	59,557	16.81	61,990	19.46
Loans to cooperatives	2,110	0.54	1,693	0.48	1,594	0.50
Processing and marketing	15,492	3.96	13,539	3.82	8,278	2.60
Farm-related business	5,565	1.42	5,101	1.44	5,446	1.71
Communication	6,747	1.73	4,411	1.24	–	–
Power and water/waste disposal	6,388	1.63	–	–	–	–
Rural residential real estate	15,504	3.97	16,691	4.71	15,280	4.80
International	1,042	0.27	1,653	0.46	1,044	0.32
Total	$ 390,933	100.00%	$ 354,384	100.00%	$ 318,613	100.00%

The geographic distribution of accruing loan volume by branch for the past three years is as follows.

Branch	12/31/23	12/31/22	12/31/21
Marianna	24.11%	26.40%	26.86%
Milton	14.45	20.20	20.67
Tallahassee	11.18	16.06	15.98
Monticello	12.17	15.44	16.30
Special Assets	0.24	0.30	0.52
Home Loans	8.09	9.35	9.60
Capital Markets	15.84	11.46	10.07
Lifestyle Lending	13.92	0.79	–
Total	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial 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's loan portfolio are shown below. The predominant commodities are forestry, row crops, livestock, peanuts, rural homes, landlords and horticulture, which together constituted 79 percent of the entire portfolio at December 31, 2023.

	December 31,					
Commodity Group	2023		2022		2021	
	(dollars in thousands)					
Forestry	$ 171,151	44%	$ 166,889	47%	$ 141,367	44%
Row Crops	43,031	11	42,744	12	40,620	13
Livestock	36,287	9	32,799	9	35,363	11
Peanuts	22,904	6	20,496	6	18,332	6
Rural Homes	15,504	4	16,691	5	15,654	5
Landlords	12,759	3	11,225	3	12,805	4
Horticulture	9,436	2	11,953	3	11,592	4
Dairy	10,896	3	8,271	2	7,930	2
Hunting/Trapping/Game	17,586	5	3,918	1	4,330	1
Other	51,379	13	39,398	12	30,620	10
Total	$ 390,933	100%	$ 354,384	100%	$ 318,613	100%

Repayment ability is closely related to the commodities produced by borrowers and, increasingly, by borrowers' non-farm income. The Association's loan portfolio contains a large concentration in the forestry industry; however, due to the non-farm income of borrowers in this industry classification, sources of repayment are varied, reducing the overall risk exposure to this commodity.

During 2023, the Association was active in buying and selling 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, further strengthening its capital position.

Loan Participations	2023	2022	2021
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 62,079	$ 40,684	$ 32,094
Participations Purchased – Non-FCS Institutions	–	–	143
Participations Sold	(78,006)	(79,364)	(73,269)
Total	$ (15,927)	$ (38,680)	$ (41,032)

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.

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 reviews the credit quality of the loan portfolio on an ongoing basis. With the approval of the Board of Directors, the Association has established 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 – intended use of the loan funds or industry implications.

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 anticipated cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by a first lien on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the 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 actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. In addition, each loan is assigned a credit risk rating based upon the Association's underwriting standards. The credit risk rating process incorporates both objective and subjective criteria to identify inherent strengths, weaknesses and risks in loan transactions.

The credit quality of the loan portfolio is reviewed on an ongoing basis as part of the Association's risk management practices. Each loan is classified according to the 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 some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans at December 31.

Credit Quality	**2023**	**2022***	**2021***
Acceptable & OAEM	99.48%	98.06%	97.62%
Substandard	0.52	1.94	2.38
Doubtful	–	–	–
Total	100.00%	100.00 %	100.00%

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

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. The high-risk assets, including accrued interest, are detailed below:

	12/31/23	**12/31/22**	**12/31/21**
	(dollars in thousands)		
High-risk Assets			
Nonaccrual loans	$ –	$ 203	$ 451
Accruing loans 90 days past due	–	–	–
Total high-risk loans	–	203	451
Other property owned	–	14	45
Total high-risk assets	$ –	$ 217	$ 496
Ratios			
Nonaccrual loans to total loans	0.00%	0.06%	0.14%
High-risk assets to total assets	0.00%	0.06%	0.15%

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 decreased by $203 or 100 percent in 2023. The Association had no nonaccrual loans as of December 31, 2023. Of the nonaccrual loan volume at December 31, 2022 and 2021, volume was current as to scheduled principal and interest payments by 89.66 percent and 54.10, respectively.

Other property owned (OPO) decreased by $14 or 100 percent in 2023. During 2023, equipment with a book value of $14 was sold. As of December 31, 2023, OPO is $0.

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 be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses is determined according to accounting principles generally accepted in the United States.

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

Allowance for Loan Losses Activity:	2023	2022	2021
	(dollars in thousands)		
Balance at beginning of year	$ 4,980	$ 4,968	$ 4,912
Cumulative effect of a change in accounting principle	(3,463)	–	–
Charge-offs:			
Real estate mortgage	–	(143)	(50)
Production and intermediate term	(6)	(7)	(175)
Agribusiness	–	–	–
Rural residential real estate	–	–	–
Total charge-offs	(6)	(150)	(225)
Recoveries:			
Real estate mortgage	58	250	254
Production and intermediate term	193	103	26
Agribusiness	1	1	1
Rural residential real estate	–	–	–
Total recoveries	252	354	281
Net (charge-offs) recoveries	246	204	56
Provision for (reversal) of allowance for loan losses	(589)	(192)	–
Balance at end of year	$ 1,174	$ 4,980	$ 4,968
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.066%	0.062%	0.018%

The allowance for loan losses by loan type for the most recent three years is presented in the following table.

	December 31,		
Allowance for Loan Losses by Type	2023	2022	2021
	(dollars in thousands)		
Real estate mortgage	$ 680	$ 3,536	$ 3,504
Production and intermediate-term	357	840	971
Agribusiness	67	285	239
Rural residential real estate	55	234	238
Other	15	85	16
Total loans	$ 1,174	$ 4,980	$ 4,968

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	December 31,		
as a Percentage of:	2023	2022	2021
Total loans	0.30%	1.41%	1.56%
Nonperforming loans	n/m	388.76%	236.12%
Nonaccrual loans	n/m	2,453.20%	1,101.55%

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 $7,074, an increase of $114 or 1.64 percent compared to net income of $6,960 for 2022, which represented a decrease of $1,118 or 13.84 percent compared to net income of $8,078 for 2021. The increase in net income for 2023 was due primarily to increased net interest income and a higher reversal of the allowance for credit losses, partially offset by decreased noninterest income and higher noninterest expense. The decrease in net income for 2022 was due primarily to decreased noninterest income and higher noninterest expense, partially offset by increased net interest income and a reversal of the allowance for loan losses. Major components of the changes in net income for the past two years are outlined in the following table. Further discussion of each component is provided in the sections below.

Change in Net Income:	**2023-2022**	**2022-2021**
	(dollars in thousands)	
Net income (loss) prior year	$ 6,960	$ 8,078
Increase (decrease) in net income due to:		
Interest income	5,888	1,970
Interest expense	(4,130)	(1,533)
Net interest income	1,758	437
Provision for loan losses	360	192
Noninterest income	(1,183)	(1,570)
Noninterest expense	(813)	(173)
Provision for income taxes	(8)	(4)
Total changes in income	114	(1,118)
Net income (loss)	$ 7,074	$ 6,960

Net Interest Income

Net interest income (before provision for or reversal of allowance for loan losses) for the year ended December 31, 2023 totaled $11,452, an increase of $1,758 or 18.13 percent compared to net interest income of $9,694 for 2022, which represented an increase of $437 or 4.72 percent compared to net interest income of $9,257 for 2021. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt.

Net interest income is impacted by changes to interest income and interest expense. Interest income for the year ended December 31, 2023 increased due to higher average loans outstanding and higher interest rates on loans and increased interest income recognized on nonaccrual loans. Interest expense increased for 2023 due to higher interest rates and higher average notes payable to AgFirst. Interest income for the year ended December 31, 2022 increased due to higher average loans outstanding and higher interest rates on loans. Interest expense increased for 2022 due to higher interest rates and higher average notes payable to AgFirst.

The effects of changes in average volume and interest rates on net interest income are presented in the following table:

Change in Net Interest Income:	**Volume***	**Rate**	**Total**
		(dollars in thousands)	
12/31/23 – 12/31/22			
Interest income	$ 1,942	$ 3,946	$ 5,888
Interest expense	1,078	3,052	4,130
Change in net interest income	$ 864	$ 894	$ 1,758
12/31/22 – 12/31/21			
Interest income	$ 915	$ 1,055	$ 1,970
Interest expense	420	1,113	1,533
Change in net interest income	$ 495	$ (58)	$ 437

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

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	$ 111	$ 79	$ 94	40.51 %	(15.96)%
Patronage refunds from other Farm Credit Institutions	3,108	3,983	5,446	(21.97)	(26.86)
Other noninterest income	185	525	617	(64.76)	(14.91)
Total noninterest income	$ 3,404	$ 4,587	$ 6,157	(25.79)%	(25.50)%

Noninterest income for the year ended December 31, 2023 totaled $3,404, a decrease of $1,183 or 25.79 percent compared to $4,587 in 2022, which represented a decrease of $1,570 or 25.50 percent compared to noninterest income of $6,157 in 2021. The decrease in noninterest income for 2023 was due to decreases in fees for financially related services, patronage refunds, gains on sales of rural home loans, and gains on sales of premises and equipment, partially offset by increases in fees for loan fees, other noninterest income and gains on other transactions. The decrease in noninterest income for 2022 was due to decreases in loan fees, patronage refunds, gains on sales of rural home loans, and other gains, partially offset by increases in fees for financially related services, and other noninterest income. Special patronage refunds from AgFirst totaled $170 in 2023, $1,362 in 2022, and $3,079 in 2021. These special patronage distributions are not expected in future years.

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	$ 5,572	$ 5,114	$ 5,160	8.96 %	(0.89)%
Occupancy and equipment	243	231	235	5.19	(1.70)
Insurance Fund premiums	487	467	348	4.28	34.20
(Gains) losses on OPO	2	(41)	(50)	(104.88)	(18.00)
Other operating expenses	2,018	1,738	1,643	16.11	5.78
Total noninterest expense	$ 8,322	$ 7,509	$ 7,336	10.83 %	2.36 %

Salaries and employee benefits increased by $458 or 8.96 percent in 2023, reflecting an increase in salaries, incentives and employee benefits and a decrease in deferred personnel costs. Occupancy and equipment expense increased by $12 or 5.19 percent, primarily reflecting increases in cost of space expenses, partially offset by decreases in depreciation and other furniture and equipment expense. Insurance fund premiums increased by $20 or 4.28 percent due to higher average notes payable balances, partially offset by decreased premium assessment rates. Gains on OPO decreased by $43 or 104.88 percent. Other operating expenses increased by $280 or 16.11 percent.

Income Taxes

The Association recorded a provision for income taxes of $12 for the year ended December 31, 2023, compared to $4 for 2022 and $0 for 2021.

Refer to Note 2, *Summary of Significant Accounting Policies, 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 month periods ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/23	For the 12 Months Ended 12/31/22	For the 12 Months Ended 12/31/21
Return on Average Assets	1.86%	2.08%	2.56%
Return on Average Members' Equity	7.37%	7.82%	9.25%
Net Interest Income as a Percentage of Average Earning Assets	3.09%	2.92%	2.96%
Net (Charge-offs) Recoveries to Average Loans	.066%	.062%	.018%

The return on average assets and return on average members' equity decreased for the year ended December 31, 2023 due primarily to the changes in net income described above. Net interest income as a percentage of average earning assets increased in 2023 due to an increase in earnings provided by the loanable funds credit, partially offset by a decrease in net interest spread on loans. Net recoveries to average loans increased in 2023 due primarily to net recoveries of $246 in 2023 compared to net recoveries of $204 in 2022.

The return on average assets and return on average members' equity decreased for the year ended December 31, 2022 due primarily to the changes in net income described above. Net interest income as a percentage of average earning assets decreased in 2022 due to a decrease in net interest spread on loans, partially offset by an increase in earnings provided by the loanable funds credit. Net recoveries to average loans increased in 2022 due primarily to net recoveries of $204 in 2022 compared to net recoveries of $56 in 2021.

Key factors in the growth of net income for future years will be quality loan growth, adequate net interest margins, operating expense control, and stabilized noninterest income. The Association's goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve a desirable rate of return for members. To meet this goal, the Association must attract and maintain high quality loan volume priced at competitive rates and manage credit risk across the entire portfolio, while efficiently meeting the credit needs of 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 the 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."

The total notes payable to the Bank at December 31, 2023 were $300,170 compared to $264,071 at December 31, 2022 and $230,976 at December 31, 2021. The 2023 increase of $36,099 or 13.67 percent was due primarily to an increase in net loans. The 2022 increase of $33,095 or 14.33 percent was due primarily to an increase in net loans.

The average volume of notes payable to the Bank was $279,281, $241,467 and $223,879 for the years ended December 31, 2023, 2022 and 2021 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 notes payable with the Bank.

The Association had no lines of credit outstanding with third parties 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 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). 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 interest rate risk associated with the loan portfolio.

The Association's net interest income as a percentage of average earning assets increased to 3.09 percent for the year ended December 31, 2023 from 2.92 percent for the year ended December 31, 2022. The increase is due to an increase in earnings provided by the loanable funds credit, partially offset by a decrease in net interest spread on loans.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Debt - Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's ability to require additional capital contributions from the Association is discussed in Note 4, *Investments – Equity Investments in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

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.

The Association has an agreement with the Bank whereby the Bank may provide certain fiscal, personnel, accounting, marketing, communication, public relations, information management, computer and certain other services as requested by the Association. Specific services currently provided by the Bank to the Association, in which each service provided would constitute a material interdependent relationship, include information management, computer services/hosting, payroll processing and related payroll tax services.

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's 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, 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 have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity as of December 31, 2023 was $95,291, an increase of $6,162 or 6.91 percent compared to $89,129 at December 31, 2022, which represented an increase of $2,662 or 3.08 percent compared to $86,467 at December 31, 2021. The increases in members' equity for 2023 and 2022 were due to net income retained in excess of distributions to members.

Total capital stock and participation certificates were $1,495 on December 31, 2023, compared to $1,444 on December 31, 2022 and $1,393 on December 31, 2021. The changes are reflective of the stock and participation certificate requirements as existing loans are repaid and new loans are made.

The FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk-adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios.

Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new 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. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio remains in effect.

The following sets forth the regulatory capital ratios and the Association's capital ratios as of December 31, 2023, 2022 and 2021:

				Capital Ratios as of December 31,		
Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement with Capital Conservation Buffer	2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	2.5%	7.0%	23.00%	23.72%	25.69%
Tier 1 Capital Ratio	6.0%	2.5%	8.5%	23.00%	23.72%	25.69%
Total Capital Ratio	8.0%	2.5%	10.5%	23.31%	24.97%	26.95%
Permanent Capital Ratio	7.0%	0.0%	7.0%	23.06%	24.02%	26.02%
Non-risk-adjusted:						
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	23.27%	24.49%	26.51%
UREE Leverage Ratio	1.5%	0.0%	1.5%	22.89%	24.08%	26.21%

If 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.

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 consideration of these capital needs, 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 patronage distributions. The Association declared patronage distributions of $4.4 million in 2023. Patronage distributions of $4.0 million were declared in 2022 and $6.37 million in 2021.

YOUNG, BEGINNING AND SMALL FARMER AND RANCHER PROGRAM

The Association's mission includes providing sound and constructive credit to Young, Beginning and Small (YBS) farmers and ranchers. The Board of Directors and management are responsible for ensuring the Association is making appropriate efforts to implement an effective YBS program. The Board of Directors approves YBS policies, as well as the annual business plan, which outline strategies to accomplish the YBS mission and goals and measure the program's performance. As part of its YBS program, the Association also seeks to provide financing to underserved commodities and local food hubs within its territory, many of which are operated by YBS farmers and ranchers.

Definitions

Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who is 35 years of age or less as of the date the loan is originally made.
Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products whose experience in farming or ranching as of the date the loan is originally made is 10 years or less.
Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products as of the date the loan is originally made.

YBS Program Strategies

The Association's YBS Farmer and Rancher Program complies with statutory and regulatory requirements which include program goals for quantitative measurements of the number and volume of YBS loans and strategies the Association will employ to meet program objectives.

The Association's YBS Farmer and Rancher Policy provides for loans in this segment to be underwritten according to normal commodity-based standards. Since these groups may have weaker credit factors, consideration has been given in regard to certain financial benchmarks that are traditionally weaker for the YBS segment. The Association's policy provides pricing and fee concessions for production oriented YBS borrowers. Association staff works with otherwise qualified YBS applicants to offset weaknesses through additional obligors, additional pledges of collateral, or through obtaining FSA loan guarantees. The Association is an approved FSA lender. The Association's Board of Directors and management continue to evaluate the YBS Farmer and Rancher Policy to determine if additional lending inducements can be added in a manner that still provides for safe and constructive financing.

In 2023, the Association continued to place emphasis on involvement in agricultural events and affiliations in our chartered territory with a tie to Young, Beginning and Small farmers and ranchers. The Association actively participated in agricultural events through sponsorships and virtual speaking engagements. The Association worked both independently and in cooperation with agriculturally focused affiliates and educational systems in the territory. Association members can expect this level of participation to continue throughout 2024.

In complementary initiatives, the YBS Advisory Committee continued to provide input to the Association's Board of Directors regarding future YBS policy development and program planning. The YBS Advisory Committee will continue meeting in 2024.

2024 strategies for meeting program objectives include:

- Continue to periodically evaluate the effectiveness of the YBS Policy and Program and provide consideration for YBS Advisory Committee input into the policy and program.
- Host or co-host educational seminars and other resources for YBS farmers and ranchers within the territory.
- Build stronger relationships with local Farm Service Agency, NRCS and Soil and Water Conservation staff.
- Provide educational opportunities for FFA and 4-H students.
- Lender participation in YBS events to teach skills important to agriculture and promote Farm Credit products and services.
- YBS Volunteer Program to encourage non-lending staff participation in events educating about and/or promoting agriculture.

YBS Program Quantitative Goals

In 2023, the Association continued to market and originate loans to YBS farmers and ranchers. The Association increased the number of loans in all YBS categories in 2023. Loan volume increased in all YBS categories over the prior year-end. For 2024, the Association projects an increase in loan number and loan volume for Young, Beginning and Small farmers.

The following charts show by YBS category:

- Changes in number and volume of YBS loans during 2023
- Number and volume of YBS loans as of December 31, 2023
- 2024 quantitative YBS goals

Changes in YBS Categories during 2023:

	Increase/(Decrease) # Loans	Increase/(Decrease) Loan Volume
		(dollars in thousands)
Young	25	$15,189
Beginning	103	$19,929
Small	34	$11,028

Association Number and Volume of YBS Loans as of December 31, 2023:

	# of YBS Loans	Volume YBS Loans
		(dollars in thousands)
Young	286	$46,953
Beginning	962	$162,709
Small	1,267	$183,647

2024 Quantitative Goals for YBS:

	# of YBS Loans	Volume YBS Loans
		(dollars in thousands)
Young	294	$51,537
Beginning	993	$167,748
Small	1,325	$197,489

For purposes of the above tables, a loan could be included in more than one of the categories depending on the characteristics of the underlying borrower.

Association Comparison to YBS Territorial Demographics

Association Market Share as of December 31, 2023:

	2017 Ag Census	Association Loans "In Territory"	Market Share Percentage
Young	676	260	38.46%
Beginning	2,664	855	32.09%
Small	7,620	1,151	15.10%

The 2017 USDA Ag Census data has been used as a benchmark to measure the penetration of the Association's YBS Program efforts. For purposes of the census, a farm is any place from which $1,000 or more of agricultural products were produced or sold, or normally would have been sold, during the census year. This is similar to how the Association defines an agricultural borrower. The Association's designation as being "in territory" is tied to the borrower having a farm operation headquartered or some agricultural involvement in one of the eighteen counties that comprises the Association's chartered territory. For purposes of the comparison above, the Ag Census data and the Association's numbers are not determined using exactly the same methodology. Market share percentages may be distorted due to a farm (that would be counted once in the census) potentially having more than one loan with the Association.

YBS Program Summary

In summary, the Association is committed to implementing an effective program, helping YBS farmers and ranchers receive sound and constructive credit, and working diligently to achieve our YBS mission of "*Helping Rural America Grow by supporting diversity and inclusion in agriculture."*

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 recognize 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's 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 14, 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.

The Association wholly owns one unincorporated business entity (UBE). East Wing Ranch, LLC is a Florida limited liability company, which was organized for the purpose of holding acquired property owned by the Association.

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
5052 Hwy. 90 East Marianna	Administrative/ Branch	Owned
5336 Stewart Street, SE Milton	Branch	Owned
925 W. Washington Monticello	Branch	Owned
3323 Thomasville Road Tallahassee	Branch	Owned
3927 Highway 4, Suite 103 Jay	Branch	Leased

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 intrasystem financial assistance rights 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 executive officers of the Association:

Senior Officers	Position & Other Business Interests
John R. Gregory	*President & Chief Executive Officer* since January 1, 2022. *Head of Financial Restructuring Rural North America* with Rabo AgriFinance from June 2018 thru October 2021. *Senior Financial Restructuring Manager* with Rabo AgriFinance from May 2017 thru May 2018. *Special Assets Manager and Capital Markets Officer* with the Association from April 2008 thru April 2017. Mr. Gregory is a licensed attorney in the State of Florida.
Abby Todd	*Chief Financial Officer* since April 2023. *Controller* from January 2022 thru March 2023. *Assistant Controller* from March 2017 thru December 2021. *Accountant* from January 2014 thru February 2017.
Chuck Thiele	*Chief Credit Officer* since March 2013.
DeAndrea Barber	*Chief Operations Officer* since March 2013.
Dorislynn White-Padgett	*Director of Human Resources* since March 2022. *Manager of Human Capital* from March 2014 thru February 2022. *Senior Human Resource Administrator* from January 2012 thru February 2014.
Michael Digmon	*Chief Lending Officer* since March 2022. *Regional Lending Manager (Western Region)* from August 2017 thru February 2022. *Principal Loan Officer* from April 2013 thru July 2017.

The business experience for the past five years for executive officers is with the Farm Credit System, with the exception of John Gregory which is described above.

The total amount of compensation earned by the CEO, senior officers and other highly compensated individuals as a group during the years ended December 31, 2023, 2022 and 2021, is as follows:

Name Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value*	Perquisites/ Other**	Total
John Gregory	2023	$ 251,668	$ 37,750	$ –	$ –	$ 4,450	$ 293,868
John Gregory	2022	$ 235,008	$ 35,251	$ –	$ –	$ 5,740	$ 275,999
Ricky Bitner	2021	$ 282,925	$ 42,439	$ 3,028	$ –	$ 6,230	$ 334,622
9***	2023	$ 875,721	$ 525,687	$ –	$ 87,477	$ 24,030	$ 1,512,915
8***	2022	$ 761,161	$ 378,036	$ –	$ (161,506)	$ 25,941	$ 1,003,632
7***	2021	$ 753,467	$ 385,611	$ –	$ 41,531	$ 23,256	$ 1,203,865

* *Change in Pension Value as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. The discount rate increased in 2022, leading to a decrease in pension values. See further discussion under Retirement and Deferred Compensation Plans below and in Note 9, Employee Benefit Plans, of the Consolidated Financial Statements included in this Annual Report.*
** *Perquisites/Other amounts disclosed in the above table include group life insurance premiums and automobile compensation.*
*** *2023 includes seven senior officers,2022 and 2021 include six senior officers. Highly compensated individuals included in the table above are compensated via salary, commissions, and production incentives. Commissions and production incentives are included in the Bonus column above.*

The disclosure of information on the total compensation paid during 2023 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders; Pension Benefit Disclosures." The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. System banks and associations were required to comply with the rule for compensation reported in the table for the fiscal year ending 2015 and subsequent years.

In addition to base salary, all employees (with the exception of mortgage loan officers) have the ability to earn additional compensation under an incentive plan. The Association incentive plan is designed to motivate employees to complete actions needed to achieve business plan goals during the fiscal year.

The incentive plan includes two components – the primary incentive plan (referred to hereafter as the "General Incentive Plan") that is available to all qualifying staff members and the business development plan (referred to hereafter as the "Agribusiness/Capital Markets Plan") that is available to agribusiness and capital markets loan officers to incent business development activity.

Mortgage loan officers are eligible for compensation under a commission plan based on loan volume production (referred to hereafter as the "MLO Compensation Plan").

The General Incentive Plan is measured annually and is based on one performance cycle from January through December. To participate in the General Incentive Plan, an employee must not have terminated employment prior to, nor be on probation at, the end of the performance cycle, and the employee must have satisfactory performance as measured by their most recent performance appraisal.

The General Incentive Plan is measured utilizing credit quality, delinquency rate, loan volume and return on assets. Under the plan, points are awarded for meeting various benchmarks such as the percentage of loans that carry a credit quality grade of "Acceptable", the percentage of past due loans to accruing loan volume, the amount of loan volume, and the return on assets ratio. The performance against the established benchmarks translates to a certain number of awarded points. Based upon points achieved for the performance cycle, qualifying staff members are awarded a percentage of their total compensation. The percentage awarded is based upon the total points earned during the performance cycle as well as the employee's salary grade.

Under the General Incentive Plan, the percentage of compensation that could be awarded ranges from 3 percent to 15 percent of the employee's total compensation during the performance cycle. Senior officers do not specifically earn higher awards under the plan by virtue of their position; however, a senior officer would be expected to have a higher salary grade based upon their increased level of responsibility and accountability for Association performance. For 2023, awards under the General Incentive Plan ranged from 10 percent to 15 percent for the performance cycle (January through December). Payment to employees covered under this plan is made as soon as practicable following the performance cycle.

Under the Agribusiness/Capital Markets Plan, loan officers earn points for developing new business by originating loans to new and existing borrowers, as well as by increasing portfolio growth. There are two performance cycles, January through June and July through December, for measuring new business development. There is one performance cycle, January through December, for measuring portfolio growth. Eligible new loans must satisfy established standards, including meeting regulatory requirements for borrower eligibility, receiving a satisfactory loan review grade to show acceptable credit administration standards, and maintaining an "Acceptable" credit classification during the plan year. Loan officers are awarded points based on their performance against a pre-determined business development quota and growth benchmarks for their individual loan portfolios. Loan officers are eligible to earn incentive awards calculated as a percentage of their salary. There is no cap on the incentive award for developing new business. There is a cap of 6 percent on the incentive award for portfolio growth. For 2023, incentive awards for developing new business development ranged from 0 percent to 116 percent for the first performance cycle and 0 percent to 129 percent for the second performance cycle. For 2023, incentive awards for measuring portfolio growth ranged from 1.5 percent to 6.0 percent. If a loan officer failed to achieve a certain percentage of their predetermined quota and failed to meet their portfolio growth benchmarks, no points were awarded and that loan officer received no incentive under the plan. The Association's Chief Lending Officer, who is a senior officer, is eligible to participate in the Agribusiness/Capital Markets Plan based upon the cumulative results of loan officers under his direction. Payment to employees covered under this plan is made as soon as practicable following each performance cycle.

Under the MLO Compensation Plan, commissions are calculated at rates ranging from 0.25 percent to 1.00 percent of monthly loans closed. Payment to employees covered under this plan is made monthly. For 2023, commissions paid ranged from 0.25 percent to 1.00 percent. Mortgage loan officers are not eligible under the General Incentive Plan and related components as described above. The CEO and senior officers are not eligible for the MLO Compensation Plan.

During 2023, under the General Incentive Plan, Agribusiness/Capital Markets Plan, and MLO Compensation Plan as described above, the CEO earned $37,750 and senior officers and other highly compensated individuals earned $525,687. Those amounts are presented as a bonus in the table above. Bonuses are shown in the year earned, which may be different from the year of payment.

Senior officers and other Association employees 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, registration fees and other expenses associated with travel on official business. Some senior officers and other Association employees are assigned an automobile to be utilized in the performance of Association duties. Personal usage of the assigned automobile is allowed. Any personal usage is considered a benefit to the officer or employee and is included as income to the individual in accordance with IRS regulations. Total benefit to senior officers for the personal usage of Association automobiles during 2023 was $21,036.

A copy of the Association's expense and incentive plan policies is available to shareholders upon request. Disclosure of information on the total compensation earned in 2023 by any senior officer, or by any individual included in the total, is available to shareholders upon request.

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:					
John Gregory	2023	AgFirst Retirement Plan		$ –	$ –
John Gregory	2023	Supplemental Executive Retirement Plan		–	–
				$ –	$ –
Senior Officers and Highly Compensated Employees:					
9 employees, excluding CEO	2023	AgFirst Retirement Plan	28.83*	$ 918,797	$ –
				$ 918,797	$ –

**Represents the average years of credited service for the group. Only one employee in the group above participates in the AgFirst Retirement Plan.*

Retirement and Deferred Compensation Plans

The Association's compensation programs include retirement and deferred compensation plans designed to provide income following an employee's retirement. Although retirement benefits are paid following an employee's retirement, the benefits are earned while employed. The objective of the Association is to offer benefit plans that are market competitive and aligned with the Association's strategic objectives. The plans are designed to enable the Association to proactively attract, retain, recognize, and reward a highly skilled, motivated and diverse staff that supports the Association's mission and that allows the Association to align the human capital needs with the Association's overall strategic plan.

Employees hired prior to January 1, 2003, participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Upon retirement, annual payout is equal to 2 percent of the highest three years average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

The present value of pension benefits Is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. 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.

All employees participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan, which has an employer matching contribution determined by the employee's date of hire. Employees hired prior to January 1, 2003, receive a maximum employer matching contribution equal to $0.50 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003, receive a maximum employer matching contribution equal to $1.00 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Beginning in 2015, employees hired on or after January 1, 2003, receive an additional employer contribution of 3 percent of eligible compensation.

Participation in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan, is available to certain key employees to defer compensation and restore benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions to be made by the Association. No employees participated in this plan during 2023.

Please see Note 9, *Employee Benefit Plans,* for further information on benefit plans.

Directors

The following chart details the directors serving in 2023, their current term of service and total cash compensation paid:

Name of Director	Current Term	Total Compensation
D. Mark Fletcher, *Chairman, Outside Director, Financial Expert*	2023-2026	$ 24,050
R. Douglas Walker, *Vice Chairman*	2021-2024	17,450
Damon Boutwell	2022-2025	25,300
Joshua Churchwell	2023-2026	9,000
Cindy S. Eade	2020-2023	10,350
Ernest C. Fulford	2022-2025	20,050
Jacob Gilmore	2021-2024	22,100
Dana Powell, *Outside Director*	2022-2025	29,050
Roy A. Scheffer	2023-2026	10,750
Glen Strange	2023-2026	23,100
Richard Terry	2020-2023	11,900
Michael Thompson	2022-2025	20,300
David Yoder	2021-2024	21,300
Total		$ 244,700

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years.

D. Mark Fletcher, CPA, Chairman, is an outside director. Mr. Fletcher has thirty-three years of experience in public accounting and is the senior partner in charge of the Tallahassee, Florida office of Lanigan and Associates, P.C. This has been his principal occupation for the past five years. Mr. Fletcher serves as Chairman of the Board of Farm Credit of Northwest Florida, Chairman of the Executive Committee, and is designated as the Association's financial expert.

R. Douglas Walker, Vice Chairman, has been a self-employed farmer and president of Walker and Sons Farms, Inc. for over thirty years. This has been his principal occupation for the past five years. His farm operation consists of two family-owned dairy farms. The operation also produces corn, oats, and rye grass for feed. He also has a pecan grove and a beef cattle cow/calf operation. Mr. Walker is also the manager for Walker and Sons Land Company and serves on the board of Southeast Milk, Inc. (dairy cooperative) and United Dairy Farmers of Florida. Mr. Walker serves as Vice Chairman of the Board of Farm Credit of Northwest Florida and Chairman of the Director Loan Committee.

Damon Boutwell is the General Manager of the Pace Water System, Inc. This has been his principal occupation for the past five years. He also served as Assistant Manager and previously as Utility Engineer from 2002 until 2012. Mr. Boutwell owns and manages a 225-acre farm consisting of a 50-brood cow cattle operation on 95 acres of pastureland, 90 acres of timberland and wildlife habitat, and 40 acres of hay that is leased to a hay contractor/producer. He is also the Managing Partner for 600 acres of family trust lands. He is an alumnus of Leadership Santa Rosa and a past member of the Executive Board of Leadership Santa Rosa. Mr. Boutwell serves on the advisory board of Mueller Technologies. He is a past member of the advisory board of United Bank. Mr. Boutwell is Chairman of the Audit Committee, Farm Credit of Northwest Florida’s appointed representative to the AgFirst District Nominating Committee, and a member of the AgFirst District Advisory Committee.

Joshua Churchwell is a farmer from Madison, Florida. For the past 15 years, he has worked with Merck Animal Health, where he is the territory manager for animal health needs in Florida, Georgia, and Alabama. This has been his primary occupation for the past five years. Mr. Churchwell has been the owner/operator of Churchwell Farms for 14 years, where he has a 200-head cow-calf operation on 600 acres in Madison County, FL. He is a graduate of the University of Florida with a Bachelo’'s Degree in Animal Science and a graduate of the Cornell Dairy Executive Program. He serves as the Vice Chairman of the Madison County Cattleme’'s Association, a State Director of the Florida Cattlemen's Association, the Beef Chairman of the North Florida Livestock Show, a ’ember of the Dairy Field Advisory Board for Merck Animal Health, and prior to being elected as a Board member, he served as a member of the Associatio’'s Young, Beginning, and Small Farmer Advisory Committee.

Cindy S. Eade has been in dairy production for over twenty years, and this has been her principal occupation for the past five years. She is the co-owner and manager of Cindale Farms LLC and Southern Craft Creamery. She is the past chairperson of the board of directors of the Jackson County Chamber of Commerce (business and community development) and a past-appointed member/secretary of the Florida Soil and Water Conservation Council. Ms. Eade is a member of Southeastern Milk, Inc. (a milk marketing cooperative). Ms. Eade is the past Chairperson of the Board of Farm Credit of Northwest Florida. Ms. Eade ended her term of service on the Farm Credit of Northwest Florida Board of Directors in 2023.

Ernest C. Fulford is the owner/operator of a row crop farming operation located near Monticello, Florida. He has farmed in the Monticello area for thirty-three years, and farming has been his principal occupation for the past five years. His farming operation consists of 1,200 acres of cotton, peanuts, and green peanuts. He is a partner in Boston Peanut Company. Mr. Fulford is a member of the board of the Jefferson County Farm Bureau where he currently serves as president. Mr. Fulford is a director of the Florida Peanut Producers Association and chairman of the FSA County Committee for Jefferson County.

Jacob Gilmore is the Vice President of Finance and Purchasing for Gilmore, a family business that has operated for sixty-six years. The business was founded as a moving and storage company and has expanded to include records storage, document shredding/destruction and imaging services. This has been his principal occupation for the past five years. He is part owner-operator of Gizmo Angus Farm, a 100-head cow/calf herd of registered Angus cattle kept on 450 acres of pasture. Mr. Gilmore previously served on the state leadership board of EscaRosa Young Farmers and Ranchers Committee and currently serves on the board of the Escambia County 4-H Foundation and is a member of the Escambia County Farm Bureau.

Dana Powell, CPA, is an outside director with over twenty years of experience in public accounting. She has practiced with Law, Redd, Crona & Munroe, P.A. in Tallahassee, Florida since 2003, providing auditing, consulting and tax services to government, non-profit organizations, and private sector industries. This has been her principal occupation for the past five years.

Roy A. Scheffer is a beekeeper from Graceville, Florida. From 2007 until 2022, Mr. Scheffer worked with the Florida Farm Bureau as a District Field Representative. In 2022, he left the Farm Bureau to pursue farming full-time. Since 2022, agriculture has been his primary occupation, preceded by his employment with Florida Farm Bureau. Mr. Scheffer has owned and operated Smiley B. Farms, LLC for 18 years, where he has 500 bee hives, a 50-head cattle operation, and 80 acres of perennial peanuts. Mr. Scheffer is a graduate of Troy University with a Bachelo’'s Degree in Business/Marketing. He serves as a Board Member for the Washington County Farm Bureau and a Board Member of the Jackson County Cattleme’'s Association.

Glen Strange is the owner/operator of Panhandle Growers, Inc., a 300-acre nursery operation serving landscapers and developers in southeastern states. This has been his principal occupation for the past five years. He is also the owner of North Florida Palms, a 100-acre family-operated palm tree farm, and prior owner of Coldwater Transport, a trucking company that delivered landscaping materials for Panhandle Growers, Inc. Mr. Strange is a member of the Florida Nursery, Growers and Landscape Association and the Alabama Nursery and Landscape Association. Mr. Strange is Chairman of the Compensation Committee.

Richard Terry owns and operates a row crop farm in Madison County. This has been his principal occupation for the past five years. He serves on the board for Madison County Farm Bureau (agricultural services). He previously served on the board of the Florida and Madison County Tobacco Warehouse (tobacco warehouse) and on the board of Farmers’ Co-op, Inc. (farm and supply cooperative). Mr. Terry is past Chairman of the Board of Farm Credit of Northwest Florida. Mr. Terry ended his term of service on the Farm Credit of Northwest Florida Board of Directors in 2023.

Michael Thompson currently serves as President of Thompson Brothers Angus Farm, Inc. This has been his principal occupation for the past five years. His farm operation includes 2,000 acres where he produces registered Angus cattle breeding stock as well as 1,000 acres of hay and 900 acres of soybeans, peanuts, and oats. He also provides custom farm-made feed to the livestock industry. Mr. Thompson serves as a director on the board of the Jackson County Farm Bureau.

David Yoder is the Territory Sales Manager for Valent, USA, a crop production firm. This has been his principal occupation for the past five years. His farm operation includes the ownership of Double Oaks Farm where he produces 400 acres of peanuts, corn, and small grains, and maintains a 100-cow beef cattle herd. He is also the past managing partner for Blue Bird Farms, a 1,600-acre family farm that produces peanuts, Bahia grass, cattle and timber. He is a class II member of the Wedgworth Leadership Institute that focuses on developing leaders for Florida agriculture and natural resources. He is also a member of the Florida Farm Bureau and the Florida Cattlemen's Association.

Subject to approval by the Board, the Association currently may allow directors $1,250 monthly retainer honoraria, with the exception of the outside directors who are allowed $1,500 monthly retainer honoraria. Total compensation paid to directors as a group was $244,700 for 2023. Directors are paid $250 for Board of Directors Committee meetings and $100 for an Association related telephone conference. The Association's designated financial expert may be paid $750 for each board meeting attended. No director received more than $5,000 in non-cash compensation during the year.

The following charts detail the number of meetings, compensation for board meetings, other activities and additional compensation paid for other activities (if applicable) for each director:

	Regular Board Meeting	
DIRECTOR	**Days Served**	**Compensation**
D. Mark Fletcher, *Chairman, Outside Director, Financial Expert*	9	$ 18,000
R. Douglas Walker, *Vice Chairman*	9	15,000
Damon Boutwell	9	15,000
Joshua Churchwell	4	6,250
Cindy S. Eade	5	8,750
Ernest C. Fulford	7	15,000
Jacob Gilmore	9	15,000
Dana Powell, *Outside Director*	9	18,000
Roy A. Scheffer	4	6,250
Glen Strange	9	15,000
Richard Terry	5	8,750
Michael Thompson	9	15,000
David Yoder	8	15,000
Total		$ 171,000

	Other Official Activities	
DIRECTOR	**Days Served**	**Compensation**
D. Mark Fletcher, *Chairman, Outside Director, Financial Expert*	23	$ 6,050
R. Douglas Walker, *Vice Chairman*	12	2,450
Damon Boutwell	31	10,300
Joshua Churchwell	8	2,750
Cindy S. Eade	5	1,600
Ernest C. Fulford	15	5,050
Jacob Gilmore	18	7,100
Dana Powell, *Outside Director*	31	11,050
Roy A. Scheffer	11	4,500
Glen Strange	18	8,100
Richard Terry	12	3,150
Michael Thompson	17	5,300
David Yoder	23	6,300
Total		$ 73,700

The following tables report the compensation that directors received for serving on committees. These amounts are included in the table above reporting Other Official Activities.

	Loan Committee
DIRECTOR	**Compensation**
R. Douglas Walker, *Chairman*	$ 2,200
Joshua Churchwell	750
Ernest C. Fulford	1,800
Roy A. Scheffer	250
Michael Thompson	2,300
Total	$ 7,300

DIRECTOR	Compensation Committee Compensation
Glen Strange, *Chairman*	$ 1,350
Cindy S. Eade	600
D. Mark Fletcher	250
Jacob Gilmore	1,350
Roy A. Scheffer	500
Total	$ 4,050

DIRECTOR	Audit Committee Compensation
Damon Boutwell, *Chairman*	$ 2,800
D. Mark Fletcher, *Financial Expert*	2,550
Dana Powell	2,800
Richard Terry	1,650
David Yoder	2,550
Total	$ 12,350

Name of Director	Committee Assignments
D. Mark Fletcher, *Chairman, Outside Director, Financial Expert*	Audit, Executive
R. Douglas Walker, *Vice Chairman*	Loan, Executive
Damon Boutwell	Audit, Executive
Joshua Churchwell	Loan
Ernest Fulford	Loan
Jacob Gilmore	Compensation
Dana Powell, *Outside Director*	Audit
Roy A. Scheffer	Compensation
Glen Strange	Compensation, Executive
Michael Thompson	Loan
David Yoder	Audit

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 expense 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 $97,428 for 2023, $59,954 for 2022, and $10,663 for 2021.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and elected 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 that require reporting per FCA regulations, except as disclosed in Note 10.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

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

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

	2023
Independent Auditors	
Elliott Davis, LLC	
Audit services	$ 55,750
Total	$ 55,750

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 Elliott Davis, LLC 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 1-850-526-4910 or writing Abby Todd, Chief Financial Officer, Farm Credit of Northwest Florida, P.O. Box 7000, Marianna, Florida 32447, or accessing the website, ***www.farmcredit-fl.com***.

The Association prepares an electronic version of the Annual Report that is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

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 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 (AgFirst or the Bank). 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 accessing the AgFirst's website 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 and distributes the Annual Report to shareholders within 90 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 Northwest 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.

Elliott Davis, LLC (Elliott Davis), 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 Elliott Davis 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 Elliott Davis its independence from the Association. The Committee also reviewed the non-audit services provided by Elliott Davis and concluded that these services were not incompatible with maintaining Elliott Davis'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:

Damon A. Boutwell
Chairman of the Audit Committee

Members of Audit Committee

Damon Boutwell
D. Mark Fletcher
Dana Powell
David Yoder

March 7, 2024

elliott davis

Independent Auditor's Report

Audit Committee of the Board of Directors
Farm Credit of Northwest Florida, ACA

Opinion

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

In our opinion, the accompanying 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 their operations and their 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company has elected to change its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, *Financial Instruments – Credit Losses (ASC 326)*. The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 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 Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the 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 financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the 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.

Elliott Davis, LLC

Greenville, South Carolina
March 7, 2024

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2023	2022	2021
Assets			
Loans	**$ 390,933**	$ 354,384	$ 318,613
Allowance for loan losses	**(1,174)**	(4,980)	(4,968)
Net loans	**389,759**	349,404	313,645
Loans held for sale	**131**	—	503
Accrued interest receivable	**4,065**	2,846	2,386
Equity investments in other Farm Credit institutions	**5,974**	4,268	2,932
Premises and equipment, net	**1,882**	1,733	1,834
Other property owned	**—**	14	45
Accounts receivable	**3,266**	2,720	5,567
Other assets	**131**	114	102
Total assets	**$ 405,208**	$ 361,099	$ 327,014
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 300,170**	$ 264,071	$ 230,976
Accrued interest payable	**1,161**	831	494
Patronage refunds payable	**4,443**	4,039	6,410
Accounts payable	**785**	705	510
Advanced conditional payments	**1,327**	15	144
Other liabilities	**2,031**	2,309	2,013
Total liabilities	**309,917**	271,970	240,547
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**1,495**	1,444	1,393
Retained earnings			
Allocated	**36,420**	36,420	36,420
Unallocated	**57,376**	51,265	48,654
Total members' equity	**95,291**	89,129	86,467
Total liabilities and members' equity	**$ 405,208**	$ 361,099	$ 327,014

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	**$ 22,460**	$ 16,570	$ 14,583
Other	**3**	5	22
Total interest income	**22,463**	16,575	14,605
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**10,929**	6,858	5,347
Other	**82**	23	1
Interest Expense	**11,011**	6,881	5,348
Net interest income	**11,452**	9,694	9,257
Provision for (reversal of) allowance for credit losses	**(552)**	(192)	—
Net interest income after provision for (reversal of) allowance for credit losses	**12,004**	9,886	9,257
Noninterest Income			
Loan fees	**111**	79	94
Fees for financially related services	**9**	26	25
Patronage refunds from other Farm Credit institutions	**3,108**	3,983	5,446
Gains (losses) on sales of rural home loans, net	**127**	434	503
Gains (losses) on sales of premises and equipment, net	**(1)**	24	24
Gains (losses) on other transactions	**1**	(6)	22
Other noninterest income	**49**	47	43
Total noninterest income	**3,404**	4,587	6,157
Noninterest Expense			
Salaries and employee benefits	**5,572**	5,114	5,160
Occupancy and equipment	**243**	231	235
Insurance Fund premiums	**487**	467	348
Purchased services	**487**	487	590
Data processing	**173**	152	140
Other operating expenses	**1,358**	1,099	913
(Gains) losses on other property owned, net	**2**	(41)	(50)
Total noninterest expense	**8,322**	7,509	7,336
Income before income taxes	**7,086**	6,964	8,078
Provision for income taxes	**12**	4	—
Net income	**$ 7,074**	$ 6,960	$ 8,078
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 7,074**	$ 6,960	$ 8,078

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2020	$ 1,274	$ 36,420	$ 46,945	$ 84,639
Comprehensive income			8,078	8,078
Capital stock/participation certificates issued/(retired), net	119			119
Patronage distribution				
Cash			(6,369)	(6,369)
Balance at December 31, 2021	$ 1,393	$ 36,420	$ 48,654	$ 86,467
Comprehensive income			6,960	6,960
Capital stock/participation certificates issued/(retired), net	51			51
Patronage distribution				
Cash			(4,000)	(4,000)
Patronage distribution adjustment			(349)	(349)
Balance at December 31, 2022	$ 1,444	$ 36,420	$ 51,265	$ 89,129
Cumulative effect of change in accounting principle			**3,437**	**3,437**
Comprehensive income			**7,074**	**7,074**
Capital stock/participation certificates issued/(retired), net	**51**			**51**
Patronage distribution				
Cash			**(4,400)**	**(4,400)**
Balance at December 31, 2023	**$ 1,495**	**$ 36,420**	**$ 57,376**	**$ 95,291**

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	**$ 7,074**	$ 6,960	$ 8,078
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**167**	166	169
Amortization (accretion) of net deferred loan costs (fees)	**(17)**	(32)	(61)
Provision for (reversal of) allowance for credit losses	**(552)**	(192)	—
(Gains) losses on other property owned	**2**	(44)	(55)
(Gains) losses on sales of premises and equipment, net	**1**	(24)	(24)
(Gains) losses on sales of rural home loans, net	**(127)**	(434)	(503)
(Gains) losses on other transactions	**(1)**	6	(22)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(6,156)**	(17,181)	(20,375)
Proceeds from sales of loans held for sale, net	**6,152**	18,118	20,737
(Increase) decrease in accrued interest receivable	**(1,219)**	(460)	(118)
(Increase) decrease in accounts receivable	**(546)**	2,847	(1,194)
(Increase) decrease in other assets	**(17)**	(12)	(11)
Increase (decrease) in accrued interest payable	**330**	337	23
Increase (decrease) in accounts payable	**80**	195	188
Increase (decrease) in other liabilities	**(338)**	314	(128)
Total adjustments	**(2,241)**	3,604	(1,374)
Net cash provided by (used in) operating activities	**4,833**	10,564	6,704
Cash flows from investing activities:			
Net (increase) decrease in loans	**(36,287)**	(35,549)	(19,473)
(Increase) decrease in equity investments in other Farm Credit institutions	**(1,706)**	(1,336)	86
Purchases of premises and equipment	**(317)**	(65)	(60)
Proceeds from sales of premises and equipment	**—**	24	24
Proceeds from sales of other property owned	**11**	65	592
Net cash provided by (used in) investing activities	**(38,299)**	(36,861)	(18,831)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**36,099**	33,095	17,755
Net increase (decrease) in advanced conditional payments	**1,312**	(129)	144
Capital stock and participation certificates issued/(retired), net	**51**	51	119
Patronage refunds and dividends paid	**(3,996)**	(6,720)	(5,891)
Net cash provided by (used in) financing activities	**33,466**	26,297	12,127
Net increase (decrease) in cash	**—**	—	—
Cash, beginning of period	**—**	—	—
Cash, end of period	**$ —**	$ —	$ —
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ —**	$ 14	$ 585
Estimated cash dividends or patronage distributions declared or payable	**4,400**	4,000	6,369
Cumulative effect of change in accounting principle	**3,437**	—	—
Supplemental information:			
Interest paid	**$ 10,681**	$ 6,544	$ 5,325

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 Northwest Florida, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Bay, Calhoun, Escambia, Franklin, Gadsden, Gulf, Holmes, Jackson, Jefferson, Leon, Liberty, Madison, Okaloosa, Santa Rosa, Taylor, Wakulla, Walton, and Washington 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 and service short-, intermediate- and long-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 System-wide 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 Association's 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 the 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 members' equity of prior years.

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, was the updated guidance entitled "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure." This guidance was applied on a prospective basis. 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	$ 4,980	$ (3,463)	$ 1,517
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 35	$ 26	$ 61
Retained earnings:			
Unallocated retained earnings	$ 51,265	$ 3,437	$ 54,702

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 Loan 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 not to 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 (ALL)
- the allowance for unfunded commitments, which is presented on the Consolidated Balance Sheets in Other Liabilities, and
- the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Consolidated Balance Sheets.

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

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

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

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

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

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

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

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

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

Allowance for Credit Losses on Unfunded Commitments

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

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.

Other Investments

As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment 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.

Investment Income

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 advance 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. Advance 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 a 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.

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 individually evaluated 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.

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 may act as lessor in certain contractual arrangements which 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 non-lease 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 individually evaluated 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 C 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	$ 273,532	$ 251,739	$ 224,981
Production and intermediate-term	64,553	59,557	61,990
Agribusiness:			
Loans to cooperatives	2,110	1,693	1,594
Processing and marketing	15,492	13,539	8,278
Farm-related business	5,565	5,101	5,446
Rural infrastructure:			
Communication	6,747	4,411	–
Power and water/waste disposal	6,388	–	–
Rural residential real estate	15,504	16,691	15,280
Other:			
International	1,042	1,653	1,044
Total loans	$ 390,933	$ 354,384	$ 318,613

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	$ 19,257	$ 67,708	$ –	$ 4,854	$ –	$ –	$ 19,257	$ 72,562
Production and intermediate-term	8,617	5,144	10	300	–	–	8,627	5,444
Agribusiness	19,993	–	–	–	–	–	19,993	–
Rural infrastructure	13,157	–	–	–	–	–	13,157	–
Other	1,045	–	–	–	–	–	1,045	–
Total	$ 62,069	$ 72,852	$ 10	$ 5,154	$ –	$ –	$ 62,079	$ 78,006

December 31, 2022								
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 13,229	$ 58,752	$ –	$ 5,276	$ –	$ –	$ 13,229	$ 64,028
Production and intermediate-term	6,005	14,915	11	421	–	–	6,016	15,336
Agribusiness	15,358	–	–	–	–	–	15,358	–
Rural infrastructure	4,425	–	–	–	–	–	4,425	–
Other	1,656	–	–	–	–	–	1,656	–
Total	$ 40,673	$ 73,667	$ 11	$ 5,697	$ –	$ –	$ 40,684	$ 79,364

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	$ 16,195	$ 54,913	$ –	$ 5,276	$ 143	$ –	$ 16,338	$ 60,189
Production and intermediate-term	4,884	12,659	12	421	–	–	4,896	13,080
Agribusiness	9,958	–	–	–	–	–	9,958	–
Other	1,045	–	–	–	–	–	1,045	–
Total	$ 32,082	$ 67,572	$ 12	$ 5,697	$ 143	$ –	$ 32,237	$ 73,269

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	99.01%	97.50%	95.58%
OAEM	0.46	0.12	1.51
Substandard/doubtful/loss	0.53	2.38	2.91
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	96.69%	98.22%	97.47%
OAEM	2.52	0.47	0.94
Substandard/doubtful/loss	0.79	1.31	1.59
	100.00%	100.00%	100.00%
Agribusiness:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural infrastructure:			
Acceptable	100.00%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	–%
Rural residential real estate:			
Acceptable	99.59%	99.41%	99.56%
OAEM	–	–	–
Substandard/doubtful/loss	0.41	0.59	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	98.74%	97.89%	96.37%
OAEM	0.74	0.17	1.25
Substandard/doubtful/loss	0.52	1.94	2.38
	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 $4,065, $2,846, and $2,386 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	$ 1,860	$ –	$ 1,860	$ 271,672	$ 273,532
Production and intermediate-term	4	–	4	64,549	64,553
Agribusiness	–	–	–	23,167	23,167
Rural infrastructure	–	–	–	13,135	13,135
Rural residential real estate	–	–	–	15,504	15,504
Other	–	–	–	1,042	1,042
Total	$ 1,864	$ –	$ 1,864	$ 389,069	$ 390,933

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	$ 875	$ –	$ 875	$ 252,843	$ 253,718
Production and intermediate-term	78	1	79	60,205	60,284
Agribusiness	–	–	–	20,407	20,407
Rural infrastructure	–	–	–	4,417	4,417
Rural residential real estate	102	20	122	16,613	16,735
Other	–	–	–	1,669	1,669
Total	$ 1,055	$ 21	$ 1,076	$ 356,154	$ 357,230

	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	$ 189	$ 143	$ 332	$ 226,461	$ 226,793
Production and intermediate-term	114	1	115	62,390	62,505
Agribusiness	–	–	–	15,351	15,351
Rural residential real estate	–	–	–	15,305	15,305
Other	–	–	–	1,045	1,045
Total	$ 303	$ 144	$ 447	$ 320,552	$ 320,999

The Association had no nonperforming assets as of December 31, 2023. Interest income recognized on nonaccrual loans during the period ended was $211.

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

	December 31, 2022*	December 31, 2021*
Nonaccrual loans:		
Real estate mortgage	$ 53	$ 329
Production and intermediate-term	130	94
Rural residential real estate	20	28
Total	$ 203	$ 451
Accruing restructured loans:		
Real estate mortgage	$ 937	$ 1,530
Production and intermediate-term	141	123
Total	$ 1,078	$ 1,653
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 1,281	$ 2,104
Other property owned	14	45
Total nonperforming assets	$ 1,295	$ 2,149
Nonaccrual loans as a percentage of total loans	0.06%	0.14%
Nonperforming assets as a percentage of total loans and other property owned	0.37%	0.67%
Nonperforming assets as a percentage of capital	1.45%	2.49%

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

Effective January 1, 2023, the Association adopted the CECL accounting guidance as described in Note 1. A summary of changes in the allowance for credit losses by portfolio segment 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	$ 3,536	$ 840	$ 285	$ 62	$ 234	$ 23	$ 4,980
Cumulative effect of a change in accounting principle	(2,538)	(467)	(232)	(58)	(147)	(21)	(3,463)
Balance at January 1, 2023	$ 998	$ 373	$ 53	$ 4	$ 87	$ 2	$ 1,517
Charge-offs	–	(6)	–	–	–	–	(6)
Recoveries	58	193	1	–	–	–	252
Provision for loan losses	(376)	(203)	13	10	(32)	(1)	(589)
Balance at December 31, 2023	$ 680	$ 357	$ 67	$ 14	$ 55	$ 1	$ 1,174
Allowance for Unfunded Commitments:							
Balance at December 31, 2022	$ 4	$ 18	$ 13	$ –	$ –	$ –	$ 35
Cumulative effect of a change in accounting principle	3	13	9	–	–	1	26
Balance at January 1, 2023	$ 7	$ 31	$ 22	$ –	$ –	$ 1	$ 61
Provision for unfunded commitments	(2)	34	2	1	1	1	37
Balance at December 31, 2023	$ 5	$ 65	$ 24	$ 1	$ 1	$ 2	$ 98
Total allowance for credit losses	$ 685	$ 422	$ 91	$ 15	$ 56	$ 3	$ 1,272
Allowance for Loan Losses*:							
Balance at December 31, 2021	$ 3,504	$ 971	$ 239	$ –	$ 238	$ 16	$ 4,968
Charge-offs	(143)	(7)	–	–	–	–	(150)
Recoveries	250	103	1	–	–	–	354
Provision for loan losses	(75)	(227)	45	62	(4)	7	(192)
Balance at December 31, 2022	$ 3,536	$ 840	$ 285	$ 62	$ 234	$ 23	$ 4,980
Balance at December 31, 2020	$ 3,561	$ 948	$ 235	$ –	$ 151	$ 17	$ 4,912
Charge-offs	(50)	(175)	–	–	–	–	(225)
Recoveries	254	26	1	–	–	–	281
Provision for loan losses	(261)	172	3	–	87	(1)	–
Balance at December 31, 2021	$ 3,504	$ 971	$ 239	$ –	$ 238	$ 16	$ 4,968

**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 $21,219, $9,985, and $7,920 at December 31, 2023, 2022, and 2021, respectively. Fees paid for such guarantee commitments totaled $13 for 2023. For 2022 and 2021, these fees totaled less than $1 for each period. 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 $131, $0, and $503 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.

The following tables present additional information regarding troubled debt restructurings that occurred during the period: There were no TDRs that occurred during December 31, 2022.

	Year Ended December 31, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 71	$ –	$ –	$ 71	
Production and intermediate-term	31	–	–	31	
Total	$ 102	$ –	$ –	$ 102	
Post-modification:					
Real estate mortgage	$ 71	$ –	$ –	$ 71	$ –
Production and intermediate-term	31	–	–	31	–
Total	$ 102	$ –	$ –	$ 102	$ –

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

The following table presents 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.

	Year Ended December 31,	
Defaulted troubled debt restructurings	**2022***	**2021***
Real estate mortgage	$ –	$ 198
Total	$ –	$ 198

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

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

	Total TDRs		Nonaccrual TDRs	
	December 31,		December 31,	
	2022*	**2021***	**2022***	**2021***
Real estate mortgage	$ 990	$ 1,593	$ 53	$ 63
Production and intermediate-term	153	173	12	50
Total loans	$ 1,143	$ 1,766	$ 65	$ 113
Additional commitments to lend	$ –	$ –		

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

Note 4 — Investments

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 required by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $5,421 for 2023, $3,707 for 2022 and $2,371 for 2021. The Association owned 1.04 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 $553 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	December 31, 2022	December 31, 2021
Land	$ 811	$ 559	$ 559
Buildings and improvements	2,837	2,820	2,815
Furniture and equipment	1,554	1,501	1,570
	5,202	4,880	4,944
Less: accumulated depreciation	3,320	3,147	3,110
Total	$ 1,882	$ 1,733	$ 1,834

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, 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 rates on the variable rate advances were 6.22 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 6.24 percent for Prime-based loans, and the weighted average remaining maturities were 4.2 years and 3.3 years, respectively, at December 31, 2023. The weighted average interest rate on the fixed rate loans which are match funded by the Bank was 3.90 percent, and the weighted average remaining maturity was 12.7 years at December 31, 2023. The weighted average interest rate on all interest-bearing notes payable was 4.31 percent and the weighted average remaining maturity was 11.2 years at December 31, 2023. Variable rate and fixed rate notes payable represent approximately -7.33 percent and 107.33 percent, respectively, of total notes payable at December 31, 2023. The variable rate percentage was negative due to variable rate credits that exceeded variable rate borrowings. Even though loans to borrowers are match funded by the notes payable to the Bank, they are not funded dollar for dollar. 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" and is recorded on the Association's general ledger as a debit, offsetting the notes payable to the Bank. At December 31, 2023, this resulted in a net variable rate notes payable debit and the -7.33 percent measure.

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 Stock:** Protection of certain borrower stock is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower stock, to retire such stock at par or stated value regardless of its book value. Protected borrower stock includes capital stock and participation certificates which 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 stock 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 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 lesser of $1 thousand or two percent of the amount of the loan. 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 and the Association's capital ratios as of December 31, 2023, 2022 and 2021:

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%	23.00%	23.72%	25.69%
Tier 1 Capital	6.0%	2.5%	8.5%	23.00%	23.72%	25.69%
Total Capital	8.0%	2.5%	10.5%	23.31%	24.97%	26.95%
Permanent Capital	7.0%	0.0%	7.0%	23.06%	24.02%	26.02%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	23.27%	24.49%	26.51%
URE and UREE Leverage	1.5%	0.0%	1.5%	22.89%	24.08%	26.21%

* *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 Classes A and 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.

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

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
C Common/Voting	No	255,064	$ 1,275
C Participation Certificates/Nonvoting	No	43,967	220
Total Capital Stock and Participation Certificates		299,031	$ 1,495

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 minimum aggregate amount of these two accounts is determined by the Board. 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, however, that minimum capital standards established by the FCA and the Board are met.

At December 31, 2023, allocated members' equity consisted of $36,420 of nonqualified retained surplus.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A or D Preferred Stock or on all classes of stock and participation certificates.

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 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.

Patronage 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.

Transfer

Classes A and D Preferred Stocks, 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:

1. Class C Common Stock and Class C Participation Certificates
2. Classes A and B Common Stock and Class B Participation Certificates
3. Classes A and D Preferred Stock

Liquidation

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

1. Classes A and D Preferred Stock
2. Classes A, B and C Common Stock, and Classes B and C Participation Certificates
3. Holders of allocated surplus evidenced by qualified written notices of allocation
4. Holders of allocated surplus evidenced by nonqualified written notices of allocation
5. All unallocated surplus issued after January 1, 1995, shall be distributed to past and present Patrons on a patronage basis
6. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates

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	$ 11	$ –	$ –	$ 11
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ –	$ –
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	$ 10	$ –	$ –	$ 10
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 20	$ 20
Other property owned	$ –	$ –	$ 16	$ 16

	December 31, 2021			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 6	$ –	$ –	$ 6
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 150	$ 150
Other property owned	$ –	$ –	$ 50	$ 50

**Prior to the adoption of CECL on January 1, 2023, the fair value of impaired loans included accruing restructured loans and loans past due 90 days and accruing.*

Valuation Techniques

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

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

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 $159 for 2023, $158 for 2022, and $369 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 $104 for 2023, $103 for 2022, and $107 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 $320, $301, and $315 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.

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 a nonqualified supplemental 401(k) plan. Expenses of this nonqualified plan included in noninterest expenses were $0, $0, and $3 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 $9,204. During 2023, $3,428 of new loans and advances were made and repayments totaled $1,272. In the opinion of management, none of these loans outstanding at December 31, 2023 involved more than a normal risk of collectability.

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, $50,833 of commitments to extend credit and no commercial letters of credit were outstanding with a related reserve for unfunded commitments of $98 which is 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 $105 with expiration dates ranging from January 1, 2024 to January 1, 2027. The maximum potential amount of future payments that may be required under these guarantees was $105.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2023	2022	2021
Current:			
Federal	$ 10	$ 3	$ –
State	2	1	–
	12	4	–
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ 12	$ 4	$ –

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	$ 1,488	$ 1,462	$ 1,696
State tax, net	2	–	–
Patronage distributions	(545)	(840)	(1,338)
Tax-exempt FLCA earnings	(924)	(531)	(303)
Change in valuation allowance	(49)	(110)	(31)
Deferred tax rate change		–	–
Other	40	23	(24)
Provision (benefit) for income taxes	$ 12	$ 4	$ –

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

	December 31,		
	2023	2022	2021
Deferred income tax assets:			
Allowance for loan losses	$ 104	$ 209	$ 249
Net operating loss – carryforward	545	584	591
Loan origination fees	–	–	–
Nonaccrual loan interest	1	19	20
Valuation allowance on other property owned	–	–	–
Gross deferred tax assets	650	812	860
Less: valuation allowance	(544)	(703)	(813)
Gross deferred tax assets, net of valuation allowance	106	109	47
Deferred income tax liabilities:	(106)	(109)	(47)
Gross deferred tax liability	–	–	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2023, deferred income taxes have not been provided by the Association on approximately $56 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 $544, $703 and $813 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.

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	$ 2,702	$ 2,928	$ 2,902	$ 2,920	$ 11,452
Provision for (reversal of) allowance for credit losses	64	(103)	(524)	11	(552)
Noninterest income (expense), net	(1,275)	(1,131)	(1,247)	(1,277)	(4,930)
Net income	$ 1,363	$ 1,900	$ 2,179	$ 1,632	$ 7,074

	2022				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,245	$ 2,348	$ 2,483	$ 2,618	$ 9,694
Provision for (reversal of) allowance for loan losses	–	–	(192)	–	(192)
Noninterest income (expense), net	(988)	(1,050)	(1,105)	217	(2,926)
Net income	$ 1,257	$ 1,298	$ 1,570	$ 2,835	$ 6,960

	2021				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,227	$ 2,326	$ 2,395	$ 2,309	$ 9,257
Provision for (reversal of) allowance for loan losses	–	–	–	–	–
Noninterest income (expense), net	(1,115)	(928)	(1,021)	1,885	(1,179)
Net income	$ 1,112	$ 1,398	$ 1,374	$ 4,194	$ 8,078

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.

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