

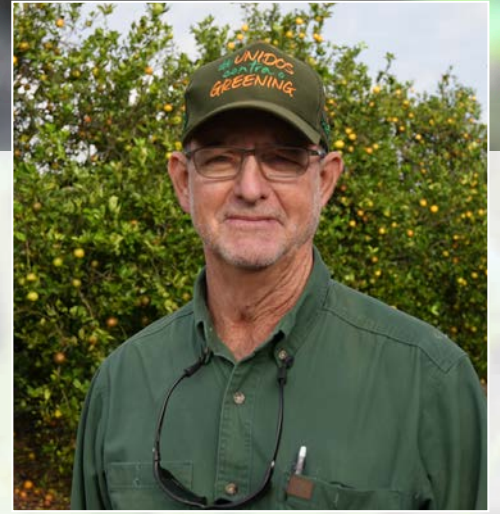
2023 ANNUAL REPORT

PLANTING PEACE OF MIND



FARM CREDIT
OF CENTRAL FLORIDA







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PLANTING PEACE OF MIND



REGGIE HOLT
Chief Executive Officer

2023 was a busy year for Farm Credit of Central Florida as we implemented new loan systems and updated our digital banking platform. These improvements were essential in addressing both current and future needs of our members. As part of our commitment to agriculture, strengthening our association through investing in staff and technology ensures we can continue providing the highest level of service to you, our valued member-owners.

As we look ahead to 2024, our association remains committed to providing the financial resources and support you need to navigate the challenges you face. The past several years have been living proof that agriculture is unpredictable. Farmers have battled weather events, low commodity prices, high fuel costs and labor shortages. At Farm Credit, we understand that your peace of mind is the most valuable crop we can cultivate as an association. Therefore, just as the farmer tends the soil to yield a prosperous harvest, we are committed to planting the seeds of trust, reliability, and unwavering support to continue fostering our relationship with you. For this reason, our staff works daily to retain that trust and reliability by working alongside our member-owners to help make their operations sustainable and able to weather uncertainties.

Reflecting back on my 40 + years with Farm Credit, I can say every year brings both opportunities and

challenges. Our focus should be on recognizing risks and leveraging opportunities to manage and improve those risks. While good solid risk management practices may not eliminate problems, they can definitely go a long way to minimizing them. Consequently, crop insurance is a tool that can help mitigate these risks, but it is not always utilized.

During 2023, our team put more emphasis on educating members and non-members on our crop insurance services and the benefits of purchasing with us.

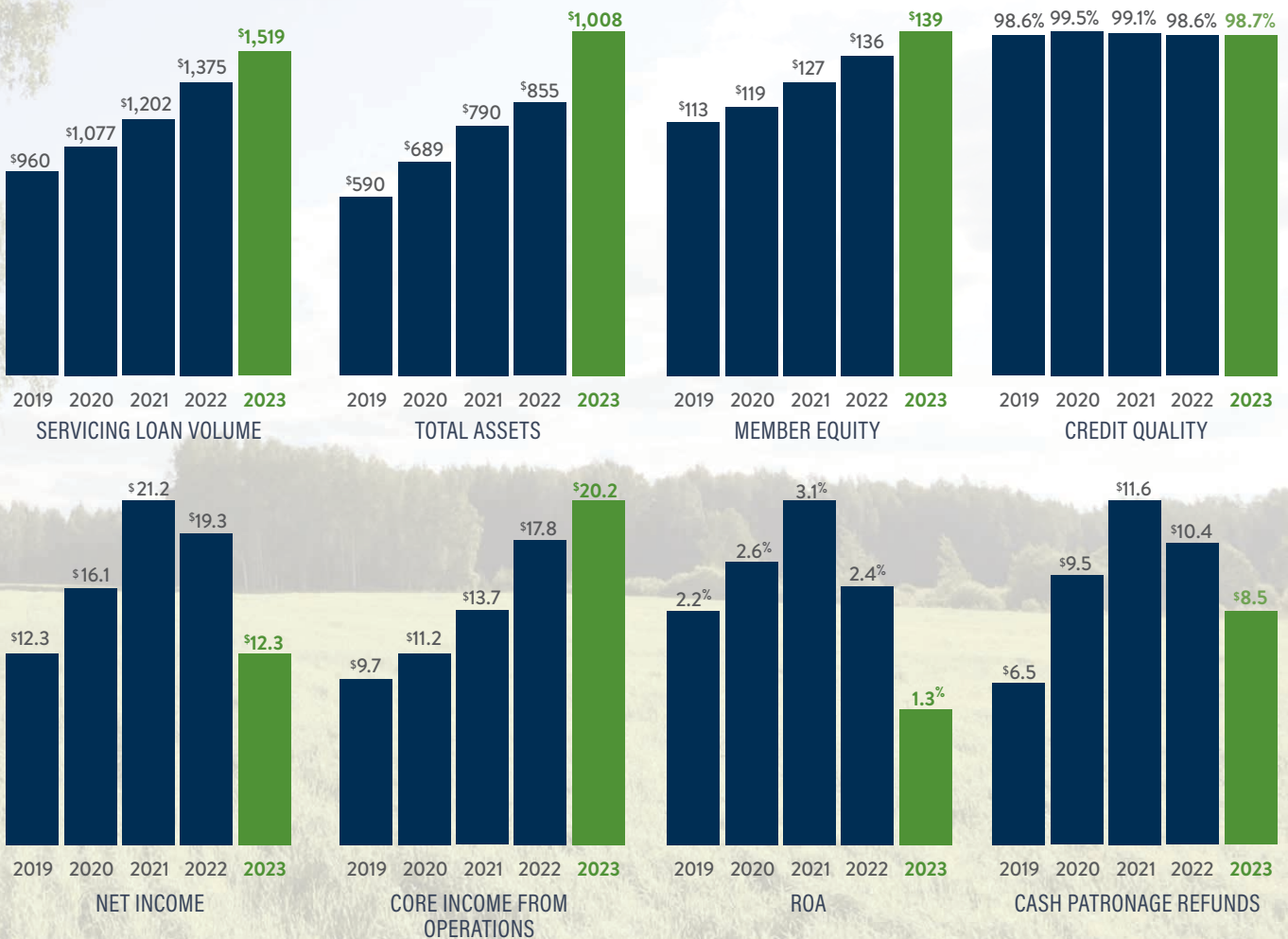
This annual report serves as a testament, featuring compelling testimonies from members, with crop insurance policies, demonstrating how the coverage has planted peace of mind in them. I hope you will take the time to hear them.

On behalf of Farm Credit of Central Florida Directors, leaders and staff, thank you for entrusting Farm Credit of Central Florida with your financial and crop insurance needs. We look forward to serving you in the years to come.

Reginald T. Holt
President & CEO

Our Mission

To be the premier partner with farmers and rural communities throughout all of Central Florida by providing reliable, consistent credit and financial services.



*DOLLAR AMOUNTS IN MILLIONS

Board of Directors

Our board of directors is dedicated to ensuring your prosperity by always keeping your interests in mind.



KEITH D. MIXON
Chair of Board



RANDY L. LARSON
Vice Chair of Board



DANIEL T. APRILE



ERIN H. ARCHEY



ROBERT M. BEHR



JENNY R. BLACK



C. DENNIS CARLTON JR.



W. REX CLONTS JR.



REED C. FISCHBACH



DAVID A. MERENESS



TIMOTHY D. SCHAAL

People Who **Work For You**

Our strong team of leaders makes supporting you, the agriculture industry and its stakeholders our number-one priority.



REGGIE HOLT
Chief Executive Officer



SCOTT FONTENOT
Chief Operating Officer



ANNIE SULLIVAN
Chief Financial Officer



JEFF PHILLIPS
Chief Lending Officer



JOHAN DAM
Chief Marketing & Risk Officer



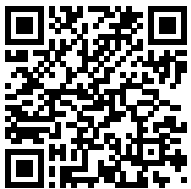
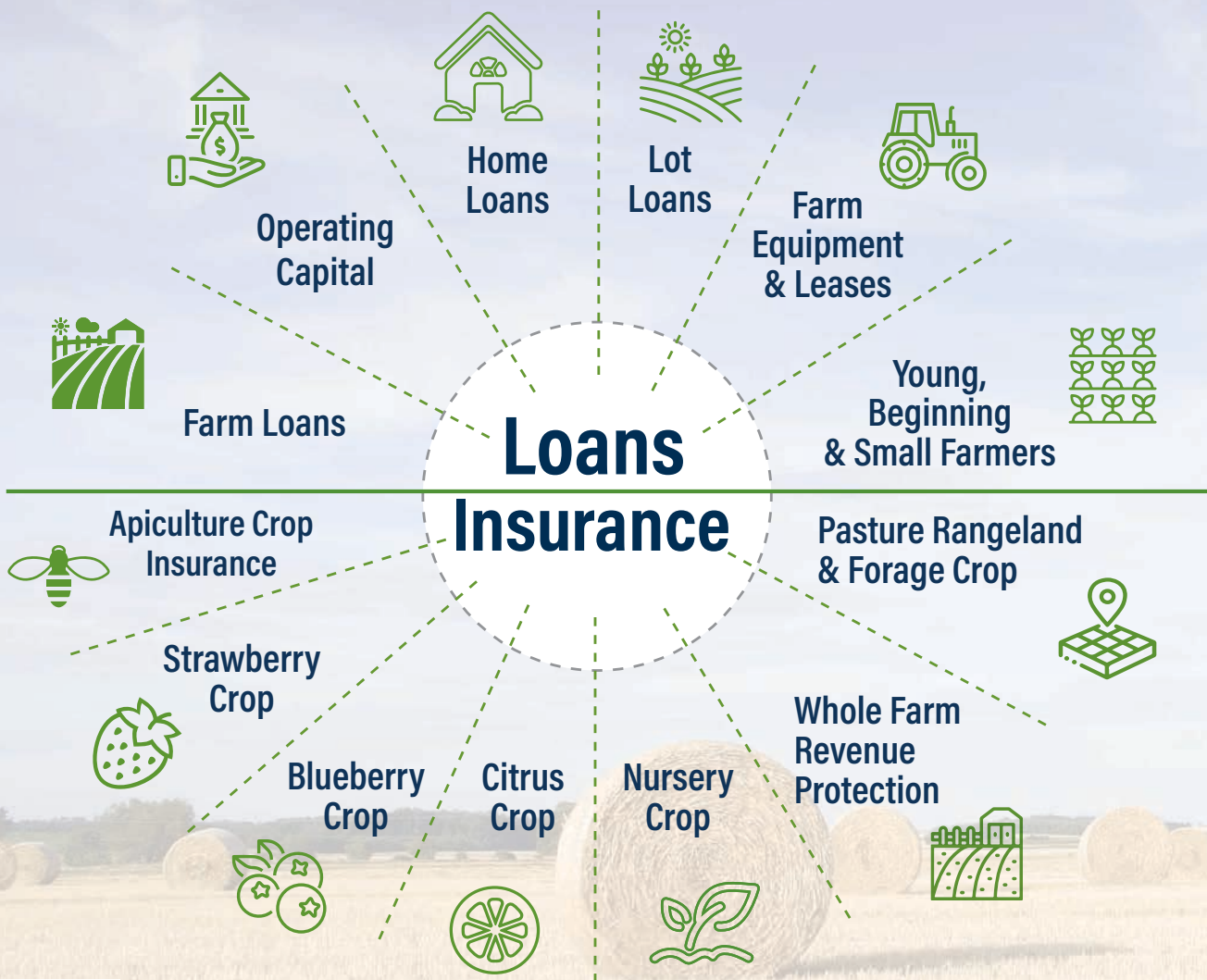
DAWN TUTTEN
Chief Administrative Officer



KERRI COSTINE
Chief Credit Officer

Ways we can serve you

Serving agriculture and rural communities for over 100 years, we're a federally chartered locally operated cooperative owned by our member-borrowers. We have the business tools, knowledge, and staff to help you achieve your goals and find solutions. Our staff is ready to partner with you to find the right financial service to fit your needs.



See what our customers have to say about doing business with us on google
<https://g.page/FarmCreditCFL?gm>

Proud to serve you Meet the Lenders



CHRIS WITMER
Lakeland Office



BROCK OVERBAUGH
Plant City Office



DAVID McDONALD
Apopka Office



ERIN VERMILLION
Apopka Office



COREY REICHERT
Brooksville Office



CLAY JOYNER
Plant City Office



CYNTHIA FILER
Plant City Office

Meet the Crop Insurance Team



Crop Insurance Team (L-R): Oscar Chavez, Erica Irigoyen, Regina Thomas, Jennifer Parrish, Casey Foley.

Testimonials and Customer Stories



“The HIP insurance option alongside general crop insurance has decidedly been a good decision for us. Although we have hardly utilized it since inception of the program, it has thus far provided a sense of relief from the typically hectic hurricane seasons and real monetary relief when damage occurrences are reality. Our greenhouses have been built with wind resistance in mind, with the anticipation of weaker hurricanes causing damages which will not exceed the deductible; naturally, this seemed an excellent option to cover small repairs and plant losses.”



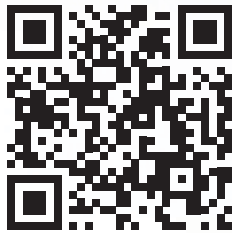
How to scan QR Code

1. Open the camera app.
2. Select the rear-facing camera in Photo camera mode.
3. Center the QR code that you want to scan on the screen and hold your phone steady for a couple of seconds.
4. Tap the notification that pops up to open the link. (You will need to be connected to the internet to do this.)

SHINN GROVES

James Shinn

"It is hard enough growing Citrus without having to worry about the weather. Buying crop insurance from Farm Credit of Central Florida reduces my risk if there is a crop loss."



This video is in español.



CONNECT WITH US ON
SOCIAL MEDIA



Agriculture Drives Florida's Economy



Florida Crops
Contribute

\$7.4 BILLION
TO THE
STATE'S ECONOMY



CROP INSURANCE COVERS
2.9 MIL ACRES
PROVIDES \$4.8 BILLION
IN PROTECTION



Insurer's paid out
\$287.9 MILLION
to cover losses in 2022 while
farmers paid \$105.3 million for
insurance coverage

SOME OF FLORIDA'S TOP CROPS GROWN INCLUDE:



ORANGES



STRAWBERRIES



CATTLE



FLORICULTURE

MOST POPULAR

CROP INSURANCE POLICIES SOLD IN CENTRAL FLORIDA IN 2023



649

PASTURE,
RANGELAND, AND
FORAGE (PRF)



507

ORANGES



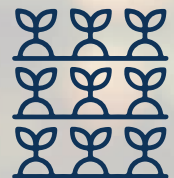
404

ORANGE TREES



204

APICULTURE



141

NURSERY

FARM CREDIT OF CENTRAL FLORIDA RETURNS \$11,820,881.99 TO MEMBERS IN 2023



One of the most important financial benefits of being a Farm Credit member-borrower is cooperative principle #3 of 7 - having the opportunity to share in the association's profits.

As an agricultural credit cooperative, Farm Credit is owned by the member-borrowers who purchase stock/participation certificates in the cooperative. After each fiscal year, our Board of Directors may choose to retain the net income of the Association to strengthen our capital position or distribute some or all of the net income to members by declaring a dividend on stock or a patronage refund.

The distribution of profits to our members effectively reduces the cost of borrowing money. Our members own the association, so it just makes sense that they will share in the profits.

I hope you'll agree that our cooperative business model offers you unique advantages. What responsibilities do you have to help the cooperative grow and thus continue to create value?

Here are a few things you can do.

- Vote! Help ensure the Association has a strong group of directors on the Board. They serve a critically important role. Consider running for a Board position.
- Be a good customer-owner. Make loan payments on time and help your Association by providing timely information. Help us keep costs down – the benefits are returned to you.
- Refer new customers to us. We must grow to achieve long-term success.
- Help with the education and development of fellow and future member-borrowers.
- Advocate for agriculture to consumers and legislators.

**** disclaimer - The obligation to pay patronage is established by the Association's bylaws and board resolutions. Distributions are made only if capital requirements are achieved. Only eligible members can participate in the Patronage Refunds Program.**

FARM CREDIT OF CENTRAL FLORIDA, ACA

2023 ANNUAL REPORT

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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 Central Florida, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

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

The Consolidated Financial Statements have been audited by Independent Auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2023 Annual Report of Farm Credit of Central 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.



David A. Mereness
Chairman of the Audit Committee



Reginald T. Holt
Chief Executive Officer



Anne M. Sullivan
Chief Financial Officer

March 7, 2024

Consolidated Five - Year Summary of Selected Financial Data

| <i>(dollars in thousands)</i> | December 31, | | | | |
|--|---------------------|-------------------|-------------------|-------------------|-------------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Balance Sheet Data | | | | | |
| Cash | \$ 11 | \$ 11 | \$ 11 | \$ 12 | \$ 14 |
| Investments in debt securities | 79,085 | 1,808 | 2,748 | 3,966 | 5,262 |
| Loans | 880,994 | 825,785 | 757,407 | 658,098 | 568,435 |
| Allowance for loan losses | (2,058) | (4,378) | (3,067) | (3,283) | (3,113) |
| Net loans | 878,936 | 821,407 | 754,340 | 654,815 | 565,322 |
| Equity investments in other Farm Credit institutions | 15,584 | 10,927 | 6,755 | 6,636 | 6,677 |
| Other property owned | 501 | — | — | 227 | — |
| Other assets | 33,878 | 20,787 | 26,285 | 23,669 | 13,149 |
| Total assets | \$ 1,007,995 | \$ 854,940 | \$ 790,139 | \$ 689,325 | \$ 590,424 |
| Notes payable to AgFirst Farm Credit Bank* | \$ 844,626 | \$ 694,754 | \$ 635,922 | \$ 548,714 | \$ 463,711 |
| Accrued interest payable and other liabilities with maturities of less than one year | 24,693 | 23,735 | 26,909 | 21,918 | 13,266 |
| Total liabilities | 869,319 | 718,489 | 662,831 | 570,632 | 476,977 |
| Capital stock and participation certificates | 1,209 | 1,212 | 1,149 | 1,008 | 942 |
| Retained earnings | | | | | |
| Allocated | 16,406 | 17,827 | 19,103 | 20,380 | 21,637 |
| Unallocated | 120,369 | 116,802 | 107,687 | 98,129 | 91,532 |
| Accumulated other comprehensive income (loss) | 692 | 610 | (631) | (824) | (664) |
| Total members' equity | 138,676 | 136,451 | 127,308 | 118,693 | 113,447 |
| Total liabilities and members' equity | \$ 1,007,995 | \$ 854,940 | \$ 790,139 | \$ 689,325 | \$ 590,424 |
| Statement of Income Data | | | | | |
| Net interest income | \$ 22,715 | \$ 19,550 | \$ 16,356 | \$ 15,332 | \$ 14,737 |
| Provision for (reversal of) allowance for credit losses | 6,139 | 1,258 | (340) | 214 | (424) |
| Noninterest income (expense), net | (4,297) | 973 | 4,462 | 979 | (2,878) |
| Net income | \$ 12,279 | \$ 19,265 | \$ 21,158 | \$ 16,097 | \$ 12,283 |
| Key Financial Ratios | | | | | |
| Rate of return on average: | | | | | |
| Total assets | 1.33% | 2.42% | 3.05% | 2.59% | 2.23% |
| Total members' equity | 8.76% | 14.35% | 16.92% | 13.56% | 10.78% |
| Net interest income as a percentage of | | | | | |
| average earning assets | 2.54% | 2.52% | 2.43% | 2.54% | 2.74% |
| Net (chargeoffs) recoveries to average loans | (0.966)% | 0.007% | 0.018% | (0.007)% | 0.050% |
| Total members' equity to total assets | 13.76% | 15.96% | 16.11% | 17.22% | 19.21% |
| Debt to members' equity (:1) | 6.27 | 5.27 | 5.21 | 4.81 | 4.20 |
| Allowance for loan losses to loans | 0.23% | 0.53% | 0.40% | 0.50% | 0.55% |
| Permanent capital ratio | 15.64% | 17.80% | 16.81% | 17.97% | 20.13% |
| Common equity tier 1 capital ratio | 15.58% | 17.82% | 16.74% | 17.87% | 20.04% |
| Tier 1 capital ratio | 15.58% | 17.82% | 16.74% | 17.87% | 20.04% |
| Total regulatory capital ratio | 15.95% | 18.26% | 17.17% | 18.40% | 20.48% |
| Tier 1 leverage ratio** | 12.87% | 15.88% | 16.32% | 17.41% | 19.49% |
| Unallocated retained earnings (URE) and URE equivalents leverage ratio | 11.27% | 13.71% | 14.34% | 15.00% | 16.48% |
| Net Income Distribution | | | | | |
| Estimated patronage refunds: | | | | | |
| Cash | \$ 8,500 | \$ 10,150 | \$ 11,600 | \$ 9,500 | \$ 6,500 |

* 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 Central 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 central Florida. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be 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 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, Post Office 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.FarmCreditCFL.com, or by calling 1-800-533-2773, or writing Anne M. Sullivan, Chief Financial Officer, Farm Credit of Central Florida, ACA, Post Office Box 8009, Lakeland, FL 33802-8009. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

Geographic and commodity diversification across the District coupled with existing government safety net programs, ad hoc support programs and additional government disaster aid payment for many borrowers help to mitigate the impact of challenging agricultural

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

CRITICAL ACCOUNTING POLICIES

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

- *Allowance for credit losses (ACL)*— On January 1, 2023, 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. This guidance replaced the incurred loss impairment methodology with a single allowance framework 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.

The ACL comprises:

- the allowance for loan losses which covers the Association's loan portfolio and is presented separately on the *Balance Sheets*,
- the ACL on unfunded commitments, which is presented on the *Balance Sheets* in other liabilities, and
- the ACL on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the *Balance Sheets*.

The ACL takes into consideration relevant information about past events, current conditions and reasonable and supportable macroeconomic forecasts of future conditions. Management also considers the imprecision inherent in their process and methodology, which may lead to a management adjustment to the modeled ACL results. See Note 2 for additional information on the Association's policies and methodologies for determining the ACL. Changes in any of the above factors considered by management in the evaluation of losses in its loan portfolio, unfunded commitments and investment securities could result in a change in the ACL and have a direct impact on its provision for credit losses and 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 impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

REGIONAL ECONOMICS

General Economy

While consensus among economists and analysts was for a national recession beginning in 2023, that did not officially materialize. Many are still forecasting a nearby recession, but Florida remains poised to weather weakness better than other states. The Sunshine State experienced substantial growth over the pandemic and recovery periods, with over 1 million people moving here since the beginning of coronavirus lockdowns and retained its status as the most popular state to move to in 2022. Despite high interest rates, real estate prices remain strong as supply of existing homes has been dampened.

The University of Central Florida's Institute of Economic Forecasting projects the state's Real Gross State Product to grow, on average, 1.6% through 2027, slowing to 0.5% growth in 2024, a strong indicator in the face of expected recession. Labor force growth is expected to decelerate in 2024-2025, with the largest benefactors of job increases being Financial Services (1.3%), Education & Health Services (1.3%), State & Local Government (1.1%), Federal Government (0.9%), and Leisure & Hospitality (0.9%).

Real personal income growth will average 2.8% during 2023 - 2027. Following an inflation-driven contraction in 2022, growth will be 3.0% in 2026. Florida's average growth will be 0.7 percentage points higher than the national rate over the 2023 - 2026 four-year span.

The November 2023 single-family home report, released by Florida Realtors, reveals a market for existing housing that remains tight, though more inventory is coming onto market. The median sales price for single family homes increased by \$3,000 in November 2023 compared with October 2023 to \$413,000, and in year over year terms prices are up 3.3% from November 2022. Statewide, however, median sales prices have retreated 1.6% from their peak in June 2023. Still median sale prices are more than 50% above pre-pandemic levels.

While a potential national recession is expected to strain Florida's economy, the state's pro-business legislature, continued net in-migration, rising household wealth, and strong labor market are factors that will help it weather the storm better than most.

Agricultural Sectors

Agriculture, agribusiness, food processing and manufacturing are still a significant driver to the Florida economy. These business segments provide significant jobs and revenues to the state and local economies.

The agricultural industry in the Central Florida region produces a wide variety of farm commodities with nurseries, cattle, citrus and strawberries still the largest market segments and principal commodities financed. Generally, commodities produced in the region are not included in USDA government support programs and are not materially impacted by changes in U.S. farm legislation. Continuation of crop insurance funding, however, is crucial for the Association's success. The agricultural demographics of the region have changed significantly as a result of non-agricultural development, changing consumer demands and impacts from various pests and diseases.

While the overall agricultural economy in the Central Florida region has been good over the last few years, there are several significant issues that have affected the area. These issues include the introduction of pest and plant diseases such as citrus greening to the citrus industry, weather-related risks, water-use regulations, environmental rules and regulations, land use and growth management regulations, challenges to property rights, widespread population growth and a tight labor supply.

Citrus

The citrus industry is an essential part of the Florida economy but has been severely harmed by the greening disease. Florida Citrus Mutual has reported in the past that the citrus industry in the state provides a total economic revenue impact of more than \$8 billion, but with declining acreage and significant damage from Hurricane Ian, that number has shrunk substantially over the past few years. In 2022, for the first time in history, total citrus production in California was larger than in the Sunshine State.

Results of the annual Commercial Citrus Inventory show total citrus acreage is 332,256 acres, down 11% from the last survey and the lowest in a series which began in 1966. The net loss of 43,046 acres is 11,000 acres more than what was lost last season. New plantings at 6,203 acres are down from the previous season. All citrus trees, at 50.3 million, are down 10% from the previous season. All of the 24 published counties included in the survey recorded decreases in acreage. Hendry county lost the most acreage, down 11,073 acres from last year. For the fifth consecutive season, Desoto County records the most citrus acres at 60,485 acres, followed closely by Polk County at 60,131 acres.

The 2023-2024 Florida all orange forecast released in December 2023 by the USDA Agricultural Statistics Board is 20.5 million boxes, no change from the October forecast. If realized, this will be 29.7% more than last season's final production of 15.8 million boxes. While the increase is encouraging, the total for this season remains less than half of 2021-2022 production. The forecast consists of 7.5 million boxes of the non-Valencia oranges (early, mid-season, and Navel varieties) and 13 million boxes of the Valencia oranges.

Nursery

Florida's floriculture and nursery product industry continues to grow and remains the largest single commodity by cash receipts in the state. According to USDA, total wholesale sales value for floriculture in the state for 2022 was \$1.17 billion, up \$70 million from last year, and the top in the country. This is more than 17% of all floriculture cash receipts nationwide. While sales growth in the nursery/floriculture sector have ebbed and flowed over the past fifteen years, especially experiencing reductions after the 2008 housing crisis, consumer demand jumped during the pandemic and have remained robust.

Trees, woody ornamentals, and sod are generally produced for end-use in the outdoor landscape market and sales are highly sensitive to neighborhood regulations, total new housing starts, and home improvement activity. Over the course of the pandemic, especially in Florida, home and apartment construction ramped-up, supporting increases in purchases. Though the Sunshine State is projected to remain one of the fastest growing states in the country, the nationwide dampening in new construction will be felt to the downside, though muted compared with other states. Annuals, garden plants, foliage, and greenery are produced mainly for the retail consumer market and correlate strongly with discretionary consumer spending, which has declined as American savings have fallen below pre-pandemic levels and inflated prices for mandatory items take a larger bite of budgets. Fern growers, tied heavily to the floral industry, generally experience seasonal spikes in demand around Valentine's and Mother's Day. Trends on social media sites such as TikTok and Instagram, as well as platforms such as Pinterest and Etsy, continue to instigate sales in the foliage and greenery sectors. Further, with the percentage of Americans working remotely drastically increasing over the past three years, there has been an elevated interest in gardening and "greening" of interior spaces.

Strawberries

In 2022 US strawberry production was 1.39 million tons with about 87% originating from California. Moderate climates with warm days and low humidity in the state’s southern and coastal regions provide ideal growing conditions for the crop. For 2024, the California Strawberry Commission is forecasting total acreage of 40,865 between fall and summer seasons, an increase of 1% over last year. Reported fall planted acres for peak production in late spring through summer were up 4.5%. Production increases are mainly tied to increased demand at the consumer level. The California strawberry commission also forecasts Mexican acreage up 5.3% from 55,222 acres to 58,167 acres.

The Sunshine State is the country’s primary location for winter growing and the second largest strawberry producer after California. Florida’s acreage is typically about 25% of California’s and its harvested production 10% of the national total, owing to significantly lower yields due to a shorter production window. For 2023, however, Florida acreage is estimated at 15,150 (or 37% of California’s total), and its production was about 13.7% of the nation. On the employment side, with increasing wages across the country finding domestic workers is challenging. Florida’s recently passed law providing for state authority to inspect and enforce immigration and work status has further depressed availability of labor. It is also possible that with Mexican acreage expanding some experienced labor will decide to remain there. Consumer demand is expected to remain strong nearby, as evidenced by growing acreage in Florida and Mexico. Long-term, labor issues are likely to speed-up attempts to mechanize harvesting as well as potentially encourage producers to expand into other regions of Latin America. Drought and water rationing in the West will likely pressure California acreage, potentially shifting some growers into Florida or Mexico. Further, the expansion of Tampa suburbs and growth in Central Florida are expected to increase competition for Florida cropland.

Cattle

Florida is predominantly a cow-calf state. Weaned calves (usually 6-10 months old weighing 300 to 600 pounds) are shipped to stockers or feedlots. While feed costs are a main driver in the cattle industry, Florida’s role in production is almost entirely cow-calf operations developing feeder cattle. Total beef cows in the state for 2022 were 888,000, but including calves and dairy the overall cattle number was 1.62 million head. This is down 1% from 2022 and on trend with declining numbers statewide since the early 2000s. Florida’s total calves under 500 lbs are up 5% from last year at 390,000, about 3% of the US total. Nationally, cattle herd numbers have dipped below totals last experienced in the 1950s, supportive of strong continued demand from feedlot operations and processors.

Currently, Florida’s pastureland is not stricken by drought, and with only 18% of the state in poor or very poor condition, and 78% of the state at adequate moisture levels. Prices continue to rise with feeder steers at the Oklahoma City National Stockyards up more than 40% from fall 2022 and fed steers up about 29% year over year. Near term risks for Florida’s cattle industry include the ongoing potential for drought and encroaching development buying acres out of production. Long-term, beef consumption in the US is expected to have peaked, with total meat eaten per capita reaching an all-time-high of 225lbs in 2020 and expected to have remained flat for 2023. Of this, beef consumption accounts for just under 60lbs per annum. High prices are likely to dampen consumer demand over the next few years, but thus far consumers have remained loyal to beef. Plant based and lab grown proteins, long expected to compete with beef have struggled of late due to elevated price points discouraging consumers and high interest rates weighing on startups. Societal pressures and political volatility could lead to increased regulation on methane emissions, resulting in added risk to producers. The export forecast has been dampened due to higher prices and global economic slowdowns, while imports are expected to increase, especially from Australia and New Zealand.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types. The Association’s loan portfolio is diversified over a range of agricultural commodities in our region, including horticulture, citrus, strawberries, and cattle. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the level of dependency on a given commodity.

The Association’s total servicing loan volume outstanding for the past three years is shown below.

| Servicing Loan Volume | December 31, | | | | | |
|-----------------------|-------------------------------|---------|--------------|---------|--------------|---------|
| | 2023 | | 2022 | | 2021 | |
| | <i>(dollars in thousands)</i> | | | | | |
| Net Loans Outstanding | \$ 880,994 | 57.99% | \$ 825,785 | 60.05% | \$ 757,407 | 62.97% |
| Participations Sold | 282,136 | 18.57 | 281,099 | 20.44 | 235,364 | 19.57 |
| Available Commitments | 277,029 | 18.23 | 266,385 | 19.37 | 207,334 | 17.23 |
| Investments | 79,085 | 5.21 | 1,808 | 0.14 | 2,748 | 0.23 |
| Total | \$ 1,519,244 | 100.00% | \$ 1,375,077 | 100.00% | \$ 1,202,853 | 100.00% |

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

| Loan Type | December 31, | | | | | |
|----------------------------------|-------------------------------|---------|------------|---------|------------|---------|
| | 2023 | | 2022 | | 2021 | |
| | <i>(dollars in thousands)</i> | | | | | |
| Real estate mortgage | \$ 515,314 | 58.49% | \$ 491,531 | 59.52% | \$ 450,053 | 59.42% |
| Production and Intermediate-term | 169,523 | 19.24 | 174,627 | 21.15 | 177,705 | 23.46 |
| Processing and marketing | 89,819 | 10.20 | 86,916 | 10.53 | 76,109 | 10.05 |
| Farm-related business | 35,391 | 4.02 | 31,173 | 3.77 | 21,115 | 2.79 |
| Communication | 23,323 | 2.65 | 8,661 | 1.05 | 4,961 | 0.66 |
| Rural residential real estate | 16,351 | 1.86 | 16,420 | 1.99 | 12,993 | 1.71 |
| Power and water/waste disposal | 13,266 | 1.50 | 1,443 | 0.17 | 1,442 | 0.19 |
| Loans to Cooperatives | 11,574 | 1.31 | 8,574 | 1.04 | 6,591 | 0.87 |
| International | 6,433 | 0.73 | 6,440 | 0.78 | 6,438 | 0.85 |
| Total | \$ 880,994 | 100.00% | \$ 825,785 | 100.00% | \$ 757,407 | 100.00% |

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The distribution of the loan volume by line of business for the past three years is as follows:

| Line of Business | December 31, | | |
|---------------------|--------------|---------|---------|
| | 2023 | 2022 | 2021 |
| Apopka | 7.49% | 8.19% | 8.07% |
| Plant City | 9.35 | 7.65 | 5.36 |
| Brooksville | 3.72 | 3.57 | 2.94 |
| Lakeland | 2.44 | 2.71 | 2.40 |
| Agribusiness | 53.63 | 57.17 | 60.65 |
| Capital Markets | 20.36 | 17.33 | 17.04 |
| Residential Lending | 2.30 | 2.19 | 1.67 |
| Special Assets | 0.71 | 1.19 | 1.87 |
| | 100.00% | 100.00% | 100.00% |

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

The major commodities in the Association loan portfolio are shown below. The predominant commodities are livestock, strawberries, nursery, fruits and vegetables, and citrus, which constitute over 68 percent of the entire portfolio.

| Commodity Group per SIC Codes | December 31, 2023 | | December 31, 2022 | | December 31, 2021 | |
|-------------------------------|-------------------------------|---------|-------------------|---------|-------------------|---------|
| | <i>(dollars in thousands)</i> | | | | | |
| Livestock | \$ 155,797 | 17.68% | \$ 158,563 | 19.20% | \$ 149,125 | 19.69% |
| Strawberries | 154,412 | 17.53 | 137,361 | 16.63 | 128,824 | 17.01 |
| Nursery | 100,155 | 11.37 | 102,692 | 12.44 | 96,670 | 12.76 |
| Fruits & Vegetables | 99,712 | 11.32 | 109,302 | 13.24 | 94,455 | 12.47 |
| Citrus | 90,930 | 10.32 | 74,021 | 8.96 | 69,819 | 9.22 |
| Landlord/Lessors | 50,769 | 5.76 | 49,372 | 5.98 | 46,625 | 6.16 |
| Field Crops | 41,649 | 4.73 | 31,216 | 3.78 | 25,525 | 3.37 |
| Timber | 40,065 | 4.55 | 42,078 | 5.09 | 45,997 | 6.07 |
| Rural Home | 17,009 | 1.93 | 16,977 | 2.06 | 13,474 | 1.78 |
| Blueberries | 8,950 | 1.02 | 16,093 | 1.95 | 16,226 | 2.14 |
| Poultry | 8,062 | 0.91 | 7,618 | 0.92 | 5,519 | 0.73 |
| Other | 113,484 | 12.88 | 80,492 | 9.75 | 65,148 | 8.60 |
| Total | \$ 880,994 | 100.00% | \$ 825,785 | 100.00% | \$ 757,407 | 100.00% |

The Association manages concentration risks, both industry and large borrower, through an internal hold limit policy based on individual loan risk ratings, loss given defaults, and industry concentrations. Industry concentrations for hold limit purposes are calculated using the repayment dependency code rather than the SIC code. As a result, for portfolio management purposes, industry classifications are determined based on high dependency of repayment coming from the actual commodity itself. Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. For example, citrus and livestock industries are a large percent of the total portfolio but each also have very low repayment dependency coming from the actual commodity itself. Portfolio management industry concentrations are classified in three concentration levels based on the industry concentration (with high dependency) as a percent of total ACA capital; 1) High – greater than 100% of total capital; 2) Medium – between 50% and 100% of total capital; and 3) Low – less than 50% of total capital. The Association’s current loan portfolio contains two medium concentration industries, the strawberry and nursery industries. All other industries are in the low concentration level.

| Portfolio Management Industry as % of Capital | December 31, | | |
|--|----------------------|---------|---------|
| | 2023 | 2022 | 2021 |
| | (% of Total Capital) | | |
| Strawberries | 87.52 % | 46.54 % | 62.16 % |
| Nursery | 76.66 | 74.25 | 76.41 |
| Citrus | 28.96 | 23.53 | 29.29 |
| Cattle | 25.90 | 25.72 | 31.05 |
| Fruits & Vegetables | 16.25 | 10.58 | 8.17 |

The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory as well as the internal hold limit policy which limits any additional increases to already high concentrations.

The increase in loan volume for the twelve months ended December 31, 2023, is primarily attributed to increased demand for loans from within the Association's charted territory.

The short-term portfolio, which is cyclical in nature and heavily influenced by operating-type loans, normally reaches a minimum balance in August or September and rapidly increases in the fall months as strawberry and other winter vegetable growers increase their borrowings to prepare for the next crop season. The Association has grown the long-term portfolio through increased long term fully funding loans with guarantees.

Loan participations purchased provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which strengthens its capital position.

| Loan Participations: | December 31, | | |
|--------------------------|------------------------|---------------------|---------------------|
| | 2023 | 2022 | 2021 |
| | (dollars in thousands) | | |
| Participations Purchased | | | |
| – FCS Institutions | \$ 182,086 | \$ 147,598 | \$ 133,347 |
| Participations Sold | (282,136) | (281,099) | (235,364) |
| Total | <u>\$ (100,050)</u> | <u>\$ (133,501)</u> | <u>\$ (102,017)</u> |

For the years ended December 31, 2023, 2022, and 2021, 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.

The Association sells qualified long-term residential mortgage loans into the secondary market. For the years ended December 31, 2023, 2022, and 2021, the Association originated loans for resale totaling \$8,153, \$9,865, and \$13,407, respectively, which were sold into the secondary market.

The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2023, 2022 and 2021, the Association had loans totaling \$188,404, \$178,121 and \$114,176, respectively, that are 100 percent guaranteed by Farmer Mac.

The Association additionally has loans wherein a certain portion of the loans are guaranteed by various governmental entities for the purpose of reducing risk. At December 31, 2023, 2022 and 2021, the balance of these loans was \$8,079, \$13,997 and \$17,089, respectively.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association's investments consist of pools of Small Business Administration (SBA) guaranteed loans. These investments carry the full faith and credit of the United States government. The balance of these SBA investments, classified as being held-to-maturity, amounted to \$79,085 at December 31, 2023, \$1,808 at December 31, 2022, and \$2,478 at December 31, 2021. Due to FCA regulations, the Association was not able to purchase new investments for several years, and as a result, the balance of these investments has decreased each year. However, the FCA issued new regulations effective January 1, 2019, that allows Associations to begin purchasing investments under specific circumstances. Due to favorable conditions in the SBA loan market, the Association had several opportunities to purchase investments in 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 continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the

Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers and credit staff. 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

The credit risk management process begins with an analysis of the borrower’s credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower’s ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens 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. Long term real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. With certain exceptions identified in Association policy, appraisals are required for loans of more than \$1,000,000. The ACA will, on occasion, make loans in amounts that exceed the above advance rates for very strong borrowers when the loan will be repaid in less than 10 years. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our 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 including accrued interest at December 31.

| Credit Quality | 2023 | 2022 | 2021 |
|-------------------|---------|---------|---------|
| Acceptable & OAEM | 98.67% | 98.58% | 99.13% |
| Substandard | 1.33% | 1.42% | 0.87% |
| Total | 100.00% | 100.00% | 100.00% |

High-Risk Assets

The Association’s loan portfolio is divided into performing and high-risk categories. The Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

| High-risk Assets | December 31, | | |
|----------------------------------|-------------------------------|-----------|----------|
| | 2023 | 2022 | 2021 |
| | <i>(dollars in thousands)</i> | | |
| Nonaccrual loans | \$ 5,031 | \$ 9,839 | \$ 4,383 |
| Restructured loans | – | 1,454 | 2,247 |
| Accruing loans 90 days past due | – | – | – |
| Total high-risk loans | \$ 5,031 | \$ 11,293 | \$ 6,630 |
| Other property owned | 501 | – | – |
| Total high-risk assets | \$ 5,532 | \$ 11,293 | \$ 6,630 |
| Ratios | | | |
| Nonaccrual loans to total loans | 0.57% | 1.19% | 0.58% |
| High-risk assets to total assets | 0.55% | 1.32% | 0.84% |

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 \$4,808 or 48.87% in 2023. This decrease is due to one fruit and vegetable borrower that moved into nonaccrual in the fourth quarter of 2022, but was charged-off in 2023. The largest nonaccrual sectors are fruits and vegetable and blueberry loans due to the weakness associated with the individual borrower’s repayment capacity and continuing decline of overall collateral values. Of the \$5,031 in nonaccrual volume at December 31, 2023, \$93 or 1.86%, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status compared to 66.43% and 15.47% at December 31, 2022 and 2021, respectively. The Association had \$501 in other property owned at December 31, 2023, and acquired one property, two vehicles and one

piece of equipment during 2023. The two vehicles were sold and the Association reported a \$12 loss on other property owned during the year.

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

Allowance for Loan Losses

On January 1, 2023, 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. This guidance replaced the incurred loss impairment methodology with a single allowance framework 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. The allowance for loan losses is broken down between specific reserves assigned to an individual loan and general reserves which are available for the expected losses within the entire portfolio. The current allowance for loan losses at December 31, 2023 contains \$1,264 in specific reserves and \$794 in general reserves. The following table presents the activity in the allowance for loan losses for the most recent three years.

| Allowance for Loan Losses Activity: | Year Ended December 31, | | |
|--|--------------------------------|-----------------|-----------------|
| | 2023 | 2022 | 2021 |
| | <i>(dollars in thousands)</i> | | |
| Balance at beginning of year | \$ 4,378 | \$ 3,067 | \$ 3,283 |
| Cumulative effect of change in accounting principle | (149) | - | - |
| | <u>\$ 4,229</u> | <u>\$ 3,067</u> | <u>\$ 3,283</u> |
| Charge-offs: | | | |
| Real estate mortgage | (709) | - | - |
| Production and intermediate-term | (8,677) | (7) | (7) |
| Rural residential real estate | - | (1) | - |
| Total charge-offs | <u>(9,386)</u> | <u>(8)</u> | <u>(7)</u> |
| Recoveries: | | | |
| Real estate mortgage | 1,135 | 20 | 36 |
| Production and intermediate-term | 51 | 37 | 75 |
| Agribusiness | 34 | - | - |
| Rural residential real estate | 15 | 4 | 20 |
| Total recoveries | <u>1,235</u> | <u>61</u> | <u>131</u> |
| Net (charge-offs) recoveries | <u>(8,151)</u> | <u>53</u> | <u>124</u> |
| Provision for (reversal of allowance for) loan losses | 5,980 | 1,258 | (340) |
| Balance at end of year | <u>\$ 2,058</u> | <u>\$ 4,378</u> | <u>\$ 3,067</u> |
| Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period | <u>(0.966)%</u> | <u>0.007%</u> | <u>0.018%</u> |

The \$5,980 provision of allowance for loan loss in 2023 was primarily the result of one commercial fruit and vegetable grower and one capital markets fruit and vegetable loan. The net loan charge-off of \$8,151 is due to the charge-offs associated with the same two borrowers.

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

| Allowance for Loan Losses by Type | December 31, | | |
|--|-------------------------------|-----------------|-----------------|
| | 2023 | 2022 | 2021 |
| | <i>(dollars in thousands)</i> | | |
| Real estate mortgage | \$ 68 | \$ 124 | \$ 1,033 |
| Production and intermediate-term | 1,552 | 3,942 | 1,750 |
| Agribusiness | 381 | 274 | 257 |
| Rural Infrastructure | 48 | 9 | 8 |
| Rural residential real estate | 6 | 27 | 17 |
| Other | 3 | 2 | 2 |
| Total loans | <u>\$ 2,058</u> | <u>\$ 4,378</u> | <u>\$ 3,067</u> |

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

| Allowance for Loan Losses as a Percentage of: | December 31, | | |
|--|---------------------|-------------|-------------|
| | 2023 | 2022 | 2021 |
| Total loans | 0.23% | 0.53% | 0.40% |
| Nonperforming loans | 37.20% | 38.77% | 46.26% |
| Nonaccrual loans | 40.91% | 44.50% | 69.97% |

Effective January 1, 2023, the Association adopted the CECL accounting guidance as describe in note 1. With this adoption, the Association added an allowance for unfunded commitments. This amount is within other liabilities on the balance sheet. The allowance for unfunded commitments at December 31, 2023 was \$270. The following table outlines the allowance for unfunded commitments activity as of December 31, 2023.

| Allowance for Unfunded Commitments Activity: | YTD 2023 |
|---|-----------------|
| Balance at beginning of period | \$ — |
| Cumulative effect of change in accounting principal | 111 |
| Balance at January 1, 2023 | 111 |
| Provision for unfunded commitments | 159 |
| Balance at end of period | <u>\$ 270</u> |

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. The Allowance for Loan Losses was determined according to generally accepted accounting principles.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was \$22,715, \$19,550, and \$16,356 in 2023, 2022 and 2021, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. Higher average daily balances on loan volumes, as well as higher rates are the primary reasons for the increases over 2022. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

| | <u>Volume*</u> | <u>Rate</u> | <u>Total</u> |
|-------------------------------|-------------------------------|---------------|-----------------|
| | <i>(dollars in thousands)</i> | | |
| 12/31/23 - 12/31/22 | | | |
| Interest income | \$ 5,424 | \$ 11,667 | \$ 17,091 |
| Interest expense | 3,185 | 10,741 | 13,926 |
| Change in net interest income | <u>\$ 2,239</u> | <u>\$ 926</u> | <u>\$ 3,165</u> |
| 12/31/22 - 12/31/21 | | | |
| Interest income | \$ 4,367 | \$ 4,484 | \$ 8,851 |
| Interest expense | 2,008 | 3,649 | 5,657 |
| Change in net interest income | <u>\$ 2,359</u> | <u>\$ 835</u> | <u>\$ 3,194</u> |

* 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 | <u>For the Year Ended</u> | | | <u>Percentage</u> | |
|--|-------------------------------|------------------|------------------|----------------------------|-----------------------|
| | <u>December 31,</u> | | | <u>Increase/(Decrease)</u> | |
| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2023/ 2022</u> | <u>2022/ 2021</u> |
| | <i>(dollars in thousands)</i> | | | | |
| Loan fees | \$ 768 | \$ 698 | \$ 860 | 10.03 % | (18.84)% |
| Fees for financially related services | 2,532 | 3,884 | 2,628 | (34.81) | 47.79 |
| Patronage refund from other Farm Credit Institutions | 8,383 | 10,771 | 13,573 | (22.17) | (20.64) |
| Gains (losses) on other rural home loans, net | 157 | 240 | 337 | (34.58) | (28.78) |
| Gains (losses) on sales of premises and equipment, net | — | — | 57 | — | 100.00 |
| Gains (losses) on other transactions | (649) | (61) | 85 | 963.93 | (171.76) |
| Other noninterest income | 6 | 2 | 7 | 200.00 | (71.43) |
| Total noninterest income | <u>\$ 11,197</u> | <u>\$ 15,534</u> | <u>\$ 17,547</u> | <u>(27.92)%</u> | <u>(11.47)%</u> |

Noninterest income decreased \$4,337 or 27.92% for the year ended December 31, 2023, as compared to the same period of 2022. 2022 noninterest income decreased \$2,013 or 11.47% when compared to the same period of 2021. The decrease in noninterest income for 2023 is primarily the result decreased fees for financially related services, decreased patronage from other Farm Credit Institutions, and losses on other transactions.

Loan fees increased \$70 or 10.03% due to increased servicing fees collected in 2023. Fees from financially related services decreased \$1,352 or 34.81% as a result of the timing of commissions received on crop insurance. The Association received a \$237 special patronage distribution from the Bank in 2023 as compared to \$3,654 in 2022 and \$7,615 in 2021, which resulted in lower patronage from Farm Credit Institutions. Gains on other rural home loans decreased \$83 or 34.58% from the prior year due to market conditions. Losses on other transactions increased \$588 or 964% from the prior year due to the loss on the sale of a nonaccrual loan. The Association entered into an agreement to sell an \$8.5 million loan asset for 92% of face value. This resulted in the recognition of a \$679 thousand loss.

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 | | | Percentage Increase/(Decrease) | |
|---|-------------------------------|-----------|-----------|--------------------------------|----------|
| | December 31, | | | 2023/ | 2022/ |
| | 2023 | 2022 | 2021 | 2022 | 2021 |
| | <i>(dollars in thousands)</i> | | | | |
| Salaries and employee benefits | \$ 9,997 | \$ 9,143 | \$ 8,624 | 9.34 % | 6.02% |
| Occupancy and equipment | 1,104 | 990 | 976 | 11.52 | 1.43 |
| Insurance Fund premium | 1,300 | 1,279 | 868 | 1.64 | 47.35 |
| Purchased Services | 512 | 503 | 547 | 1.79 | (8.04) |
| Data Processing | 218 | 161 | 167 | 35.40 | (3.59) |
| (Gains) losses on other Property owned, net | 12 | 1 | (158) | 1,100.00 | (100.63) |
| Other operating expenses | 2,351 | 2,484 | 2,026 | (5.35) | 22.61 |
| Total noninterest expense | \$ 15,494 | \$ 14,561 | \$ 13,050 | 6.41 % | 11.58% |

Noninterest expense increased \$933 or 6.41 percent for the year ended December 31, 2023, as compared to the same period of 2022, and for the year ended December 31, 2022, it increased \$1,511 or 11.58 percent compared to the same period of 2021. The primary reason for the increase in 2023 were the increases in salaries and employee benefits and occupancy and equipment expenses.

During 2023, salaries and employee benefits increased 9.34% from 2022 as a result of increased headcount and increased payroll and benefit costs due to current market conditions. The 6.02% increase during 2022 from 2021 was also due to increased headcount.

Occupancy and equipment expenses increased 11.52% from 2022 as a result of the normal recurring annual increases as well as a common area maintenance true-up on the Lakeland administration building. The 1.43% increase during 2022 was the result of normal recurring annual increases.

Insurance Fund premiums increased 1.64 percent for the twelve months ended December 31, 2023, compared to the same period of 2022. For 2023, the FCSIC set premiums at 18 basis points on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and other than temporarily impaired investments. For 2022, the FCSIC set premiums at 20 basis points on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and other than temporarily impaired investments. For 2021, the FCSIC set premiums at 16 basis points on adjusted insured debt outstanding, with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and other than temporarily impaired investments.

Purchased services increased slightly by 1.79% in 2023 from 2022 as a result of normal operational increases. The 8.04% decrease in 2022 was a result of the cancellation of an IT services contract with AgFirst.

Data processing increased 35.4% in 2023 from 2022 as a result of new software contracts and implementations at the Association. The 3.59% decrease during 2022 was a result of decreased internet costs in the new administrative building.

Other operating expenses decreased 5.35% during 2023 as compared to 2022 as a result of decreased pension administrative costs and decreased nonaccrual costs.

Income Taxes

The Association recorded no provision for income taxes for the year ended December 31, 2023, as compared to no provision for 2022 and \$35 provision for 2021. The 2021 tax provisions was the direct result of non-patronage based PPP fee income. 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 months ended December 31 are shown in the following table:

| Key Results of Operations Comparisons | For the 12 Months Ended | | |
|--|-------------------------|----------|----------|
| | 12/31/23 | 12/31/22 | 12/31/21 |
| Return on average assets | 1.33% | 2.42% | 3.05% |
| Return on average members' equity | 8.76% | 14.35% | 16.92% |
| Net interest income as a percentage of average earning assets | 2.54% | 2.52% | 2.43% |
| Net (charge-offs) recoveries to average loans | (0.966)% | 0.007% | 0.018% |

The Association's return on average assets decreased by 109 basis points and the return on average members' equity decreased by 559 basis points during 2023 compared to 2022 primarily due to decreased earnings due to the increased provisions for loan losses. The net interest income as a percentage of average earning assets, or net interest margin increased 2 basis points to 2.54% mostly due to higher earnings on loanable funds due to higher market rates. The percentage of net charge-offs and recoveries to average loans was -0.966 percent in the 2023 reporting period due to the charge-offs related to one commercial fruit and vegetable loan and one capital markets fruit and vegetable loan.

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

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2023, was \$844,626 as compared to \$694,754 at December 31, 2022 and \$635,922 at December 31, 2021. The increase of 21.57 percent compared to December 31, 2022 was attributable to the increase in total loan assets as well as investments. The average daily volume of outstanding notes payable to the Bank was \$765,824 and \$647,883 for the years ended December 31, 2023 and 2022, respectively. Refer to Note 6, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's investments and other secondary market programs provide additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

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

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices

such as the Prime Rate. Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Relationship with the Bank

The Association’s statutory obligation to borrow only from the Bank is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this annual report. The Bank’s ability to access capital of the Association is discussed in Note 4, *Investment 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, *Notes Payable to AgFirst Farm Credit Bank*, included in this annual report.

CAPITAL RESOURCES

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

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

Total members’ equity at December 31, 2023, increased \$2,225 to \$138,676 from the December 31, 2022, total of \$136,451. At December 31, 2022, total members’ equity increased 7.18 percent from the December 31, 2021 total of \$127,308. The increase in 2023 was primarily attributed to the positive earnings being offset by the payment of \$8,500 in cash patronage distributions and the revolvment of \$1,421 in allocated surplus.

Total capital stock and participation certificates were \$1,209 on December 31, 2023, compared to \$1,212 on December 31, 2022 and \$1,149 on December 31, 2021. The 2023 decrease from 2022 was attributed to the retirement of protected borrower stock and participation certificates on loans liquidated in the normal course of business and the retirement of excess stock through revolvment, offset by the issuance of new protected borrower stock and participation certificates due to increased loan volume.

FCA sets minimum regulatory capital requirements with a capital conservation buffer for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the 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 represented, the Association exceeded minimum regulatory standards for all the ratios. The Association’s capital ratios as of December 31 and the FCA minimum requirements follow:

The following sets forth the regulatory capital ratios:

| Ratio | Minimum Requirement | Capital Conservation Buffer* | Minimum Requirement with Capital Conservation Buffer | Capital Ratios as of December 31, | | |
|-------------------------|---------------------|------------------------------|--|-----------------------------------|--------|--------|
| | | | | 2023 | 2022 | 2021 |
| Risk-adjusted ratios: | | | | | | |
| CET1 Capital Ratio | 4.5% | 2.5% | 7.0% | 15.58% | 17.82% | 16.74% |
| Tier 1 Capital Ratio | 6.0% | 2.5% | 8.5% | 15.58% | 17.82% | 16.74% |
| Total Capital Ratio | 8.0% | 2.5% | 10.5% | 15.95% | 18.26% | 17.17% |
| Permanent Capital Ratio | 7.0% | –% | 7.0% | 15.64% | 17.80% | 16.81% |
| Non-risk-adjusted: | | | | | | |
| Tier 1 Leverage Ratio* | 4.0% | 1.0% | 5.0% | 12.87% | 15.88% | 16.32% |
| UREE Leverage Ratio | 1.5% | –% | 1.5% | 11.27% | 13.71% | 14.34% |

**The Tier 1 Leverage Ratio must include a minimum of 1.5% 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.

The decrease in the Association’s Total Regulatory Capital Ratio for December 31, 2023 from December 31, 2022 was attributed to the growth risk weight assets outpacing regulatory capital. The increase in the actual dollar capital is due to 2023 earnings. There are no trends, commitments, contingencies, or events that are likely to affect the Association’s ability to meet regulatory minimum capital standards and capital adequacy requirements.

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

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, (b) non-patronage participation loans purchased, and (c) other non-patronage sourced activities, the remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of \$8,500 in 2023, \$10,150 in 2022 and \$11,600 in 2021.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. As a result, 2023 goals for new volume were established. In 2023, the Association fell short on goals for numbers of loans, but far exceeded the volume goals.

| 2023 YBS Goals and Results | 2023 Goal | 2023 Result | % of Goal |
|-------------------------------|--------------|----------------|-----------|
| Young | | | |
| # of New Loans | 35 | 31 | 88.57% |
| \$ of New Loans | \$3,000 | \$6,608 | 220.27% |
| Beginning | | | |
| # of New Loans | 110 | 89 | 80.91% |
| \$ of New Loans | \$10,000 | \$17,732 | 177.32% |
| Small | | | |
| # of New Loans | 140 | 121 | 86.43% |
| \$ of New Loans | \$14,500 | \$18,511 | 127.66% |
| Total YBS Program | | | |
| # of New Loans | 285 | 241 | 84.56% |
| \$ of New Loans | \$27,500 | \$42,851 | 155.82% |

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

| | As of December 31, 2023 | |
|-----------|-------------------------|-----------------|
| | Number of Loans | Amount of Loans |
| Young | 199 | \$26,604 |
| Beginning | 582 | \$133,292 |
| Small | 944 | \$106,570 |

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

The 2017 USDA Ag census data has been used as a benchmark to measure penetration of the 19,235 reported farmers of which by definition 897 or 4.67 percent were Young, 5,629 or 29.26 percent were Beginning, and 12,709 or 66.07 percent were Small. Comparatively, as of December 31, 2023, the demographics of the Association's agricultural portfolio contained 1,725 YBS farmers, of which by definition 199 or 11.54 percent were Young, 582 or 33.74 percent were beginning and 944 or 54.72 percent were Small.

The Association Board of Directors has adopted a Young, Beginning, and Small Farmer Plan with specific goals for the number of loans and new volume closed for 2024 and two succeeding years. The Association will continue to review the demographics of its territory during 2024 utilizing 2017 Ag census data.

The following strategies and outreach programs have been conducted which assists and supports the Association's efforts to meet its objectives and goals for financing to the Young, Beginning, and Small farmers.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations.
- Sponsor seminars on farm transition planning and financial management.
- Youth livestock financing program for Youth Steer and Swine Shows. Available territory wide.

- Financial Training in cooperation with Florida Southern College, Citrus and Horticulture Dept.
- Employees serve as judges for youth livestock project record books.
- Sponsor participants and participate in Florida Council of Coops, Young Cooperator Conference.
- Sponsor Florida Nursery Growers Young Professional Award.
- Sponsors and attends the statewide Farm Bureau Young Farmers and Ranchers Leadership Conference.

In addition, the Association's lending personnel actively participate in various commodity trade group conferences and continuing education programs. Association lenders have established performance goals to provide informational and financial training to agricultural youth groups and industry trade associations.

The Association is committed to the future success of Young, Beginning and Small farmers.

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

REGULATORY MATTERS

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

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 - Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Unincorporated Business Entities

The Association had no unincorporated business entities at December 31, 2023.

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 |
|--------------------------------------|---------------------------|--------------------------|
| 204 E. Orange Street* Lakeland | Administrative/ Branch | Leased |
| 57 E. Third Street Apopka | Branch | Owned |
| 2301 Thonotosassa Road Plant City | Branch | Owned |
| 31050 Cortez Blvd. Brooksville | Branch | Owned |

* The Administrative / branch office located at 204 E, Orange St. is leased through December 31, 2035.

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

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

| Senior Officer | Time in Position | Prior Experience |
|---|------------------|--|
| Reginald T. Holt, <i>President & Chief Executive Officer</i> | 15 years | Sr. VP & Director of Agribusiness Lending from October 1997 to April 2008. Area VP from June 1992 to October 1997. Serves on the AgFirst/Farm Credit Bank of Texas Benefits Plan Sponsor Committee, and is the Vice Chair of the AgFirst Farm Credit Bank Benefits Plan Sponsor Committee. Board member of the Florida State Fair Authority. |
| D. Scott Fontenot, <i>Executive Vice President & Chief Operating Officer</i> | 7 years | Association CFO from June 2009 until September 2016. Association Director of Risk Management from March 2009 to June 2009. EVP & CFO of Jack M. Berry, Inc. from 2005 to 2009. CFO of Farm Credit of Southwest Florida from 2000 to 2004. |
| Anne M. Sullivan, <i>Sr. Vice President / Corporate Treasurer, Chief Financial Officer</i> | 7 years | Association Controller from June 2011 until September 2016. Director of Accounting with Century Residential, LLC from June 2009 until June 2011. Senior Accountant with the NCT Group from September 2006 until June 2009. |
| A. Dawn Tuten <i>Sr. Vice President/Corporate Secretary, Chief Administrative Officer</i> | 4 years | Association Corporate Secretary and Director of Corporate Services 2017-2019. Association Corporate Secretary and HR Manager 2012-2017. Association Paralegal from 2005 to 2011. Paralegal with Publix Super Markets 1997 to 2005. |
| Jeffrey T. Phillips <i>Sr. Vice President/Chief Lending Officer</i> | 3 years | Association Chief Relationship Manager from April 2007 to October 2020. |
| Johan S. Dam <i>Sr. Vice President/Chief Marketing & Risk Officer</i> | 3 years | Association Chief Digital Strategist and Marketing Officer 2019-2020. Association Capital Markets and Investment Officer 2018-2019. Principal with Prudential Ag Investments 2015 to 2018. Association Chief Relationship Manager 2007 to 2015. Commercial Relationship Manager with SunTrust Bank 1997 to 2007. |
| Kerri Y. Costine <i>Sr. Vice President/Chief Credit Officer</i> | 2 years | Association Credit Analyst Manager from August 2017 until September 2021. Vice President Commercial Account Manager with TD Bank, NA from May 2012 to August 2017. Vice President Commercial Portfolio Loan Officer with TD Bank, NA from October 2010 to May 2012. |

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

| Name of Individual or Number in Group | Year | Salary | Bonus | Deferred Comp. | Change in Pension Value | Perq/ Other* | Total |
|---------------------------------------|------|--------------|------------|----------------|-------------------------|--------------|--------------|
| Reginald T. Holt | 2023 | \$ 430,636 | \$ 166,699 | \$ – | \$ 137,562 | \$ – | \$ 734,897 |
| Reginald T. Holt | 2022 | \$ 410,130 | \$ 184,440 | \$ – | \$ (514,674) | \$ – | \$ 79,896 |
| Reginald T. Holt | 2021 | \$ 410,141 | \$ 163,933 | \$ – | \$ (1,751) | \$ – | \$ 572,323 |
| 6 | 2023 | \$ 1,321,790 | \$ 344,753 | \$ – | \$ 290,824 | \$ – | \$ 1,957,367 |
| 6 | 2022 | \$ 1,406,323 | \$ 413,041 | \$ – | \$ (718,967) | \$ – | \$ 1,100,397 |
| 7 | 2021 | \$ 1,454,741 | \$ 469,906 | \$ – | \$ 127,803 | \$ – | \$ 2,052,450 |

* Amounts in the above table classified as Perquisites include travel incentives, group life insurance, automobile compensation, purchased automobile, spousal travel, relocation and tuition reimbursement, if the annual aggregate value of such Perquisites is more than \$5,000.

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 above is available and will be disclosed to the shareholders of the institution upon request.

In addition to base salary, all Association employees (except the Director of Internal Audit and internal audit and review staff who may earn additional compensation under the Auditor Incentive Plan) may earn additional compensation under a corporate bonus plan (Plan). The Plan is designed to encourage participants to achieve the objectives of the Association by providing incentives to those employees who attain and sustain consistently high levels of performance, which contribute to the overall success and profitability of the Association. The Plan is designed to support the ACA's organizational vision, long-range and annual strategic plans. The Plan consists of the following pools; 1) General Pool; 2) Loan Officer Pool; 3) Credit and Crop Insurance Analysts Pool; and 4) Manager Pool.

The General Pool covers all employees that are not included in any of the other defined pools. The payout of the pool is based on the Association meeting and exceeding certain objectives for Earnings and Liquidity (weighted at 50%), Asset Quality and Credit Administration (weighted at 25%), and Lending and Growth (weighted at 25%). Payments are calculated at year-end based on the weighted average performance in each category, paid 100 percent in cash. The General Pool contains four different payout levels. Level 1 contains all non-exempt employees not in any other pool (for wage and salary administration purposes) and the maximum award at this level shall not exceed 7.5% of their annual earned salary. Level 2 contains eligible non-exempt employees with managerial responsibilities and all eligible exempt employees not in another pool, and the maximum award for this level shall not exceed 12% of their annual earned salary. Level 3 contains Senior Officers (except CEO, Director of Internal Audit, and employees identified in other defined pools) and the maximum award at this level shall not exceed 25% of their annual earned salary. Level 4 contains the CEO only and the maximum award

at this level shall not exceed 50% of the annual earned salary. Each of the levels requires a certain minimum individual employee evaluation score. In addition, the General Pool limits the total of all payments within the pool to a maximum of 10 percent of the total net income.

The Loan Officer Pool covers lenders and the lending managers and is based upon the individual performance of each. Award percentage points are earned for Portfolio Management (weighted 65%) and Loan Administration (weighted 35%) standards based upon a points scoring matrix with performance areas weighted according to the individual's standard of performance. Deductions to earned awards shall be made for the individual's performance score in the area of Loan Administration (asset quality and delinquencies). Payments at this level are calculated at year-end based on the weighted average performance in each category and also require a certain minimum individual employee evaluation score. The maximum award at this level shall not exceed 75% of their annual earned salary. All payments are paid 100% in cash.

The Credit and Crop Insurance Analysts Pool covers credit analysts and crop insurance analysts and is based upon the individual performance of each. Award percentage points are earned based on number of transactions activity with a payout % based on the individual's standards of performance evaluation. Payments at this level are calculated at year-end based on the weighted average performance in each category and also require a certain minimum individual employee evaluation score. The maximum award at this level shall not exceed 18% of the annual earned salary for analysts. All payments are paid 100% in cash.

The Managers Pool covers certain managers with individual performance goals (other managers without individual performance goals are in the General Pool) and is based upon the individual performance for each. Award percentage points are earned based on a payout % of the individual's standards of performance evaluation. Payments at this level are calculated at year-end based on the weighted average performance in each category and also require a certain minimum individual employee evaluation score. The maximum award at this level shall not exceed 20% of their annual earned salary. All payments are paid 100% in cash.

The Director of Internal Audit and internal audit and review staff may earn additional compensation under the Auditor Incentive Plan. The purpose of the plan is to encourage participants to achieve the long-term objectives of the Association by providing incentives to eligible audit staff that attain and sustain consistently high levels of performance, which contribute to the safety and soundness of the Association. The pay-out of the plan is based on the audit employee's performance rating as determined by their respective employee evaluations. The Director of Internal Audit's evaluation is conducted by the audit committee and reviewed by the board. The audit staff's evaluation is conducted by the Director of Internal Audit and reviewed by the audit committee. While the award is based on the employee's performance the final pay-out is made at the discretion of the board of directors.

Payment of the 2023 Corporate Bonus is in the first quarter of 2024. Bonuses are shown in the year earned, which may be different than the year of payment.

In 2020, the CEO, Mr. Holt, and the Association entered into a change of control agreement that is effective for 5 years. Should a change of control occur, the Association will continue to employ Mr. Holt for a minimum of three years. Should his employment be terminated during the two years prior or the three years after the change of control or should any major changes to the employment conditions occur during the same time periods, Mr. Holt will be entitled to a severance package as outlined in the agreement.

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

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

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

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

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: | | | | | |
| Reginald T. Holt | 2023 | AgFirst Retirement Plan | 44 | \$ 3,454,210 | \$ - |
| Reginald T. Holt | 2023 | Supplemental Executive Retirement Plan | 44 | 934,771 | - |
| | | | | <u>\$ 4,388,981</u> | <u>\$ -</u> |
| Senior Officers and Highly Compensated Employees: | | | | | |
| 3 Officers, excluding the CEO | 2023 | AgFirst Retirement Plan | 26.44* | \$ 3,130,466 | \$ - |
| | | | | <u>\$ 3,130,466</u> | <u>\$ -</u> |

* Represents the average years of credited service for the group

Mr. Holt participates in the AgFirst Farm Credit Bank Supplemental Retirement Plan, a nonqualified supplemental executive retirement plan. Benefits that would have accrued in the qualified defined benefit retirement plan in the absence of Internal Revenue Code limitations are made up through the nonqualified supplemental executive retirement plan. At the election of the retiree, benefits are paid based upon various annuity terms.

As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, current committee assignments, number of meetings, other activities, compensation for Board meetings and other activities and total cash compensation paid:

| Director | Position | Term in Office | | Number of Days Served | | Compensation | |
|------------------------|---------------------------------|------------------------------|-------------------------|-----------------------|----------------------------|------------------------|-------------------------------|
| | | Election or Appointment Year | Current Term Expiration | Board Meetings | Other Official Activities* | Total Paid During 2023 | Committee Assignments^ |
| Keith D. Mixon | Chair | 2012 | 2026 | 8 | 16 | \$ 35,000 | Audit, Governance |
| Randy L. Larson | Vice-Chair/ Outside Director | 2016 | 2026 | 8 | 13 | 28,000 | Risk Management, Governance |
| Daniel T. Aprile (3) | Director | 2019 | 2025 | 7 | 8 | 30,000 | Risk Management, Compensation |
| Erin H. Archey | Director | 2023 | 2026 | 4 | 1 | 16,333 | Risk Management, Compensation |
| Robert M. Behr | Director | 2022 | 2025 | 8 | 6 | 28,000 | Audit, Governance |
| Jenny R. Black (2) | Director | 2014 | 2024 | 8 | 5 | 30,000 | Governance, Compensation |
| C. Dennis Carlton, Jr. | Director | 2022 | 2025 | 8 | 3 | 28,000 | Risk Management, Compensation |
| W. Rex Clonts, Jr. | Director | 1997 | 2024 | 6 | 3 | 28,000 | Audit, Governance |
| Reed C. Fischbach (4) | Director | 2020 | 2026 | 7 | 8 | 29,167 | Audit, Risk Management |
| David A. Mereness (1) | Outside Director | 2016 | 2025 | 7 | 6 | 33,000 | Audit, Risk Management |
| Timothy D. Schaal | Director | 2022 | 2024 | 8 | 5 | 28,000 | Audit, Compensation |
| Randall E. Strode ** | Director | 2016 | 2023 | 3 | 1 | 12,500 | Risk Management, Compensation |
| | | | | | | <u>\$ 326,000</u> | |

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

**Randall E. Strode resigned from the Board June 2, 2023.

- (1) Chair of the Audit Committee
- (2) Chair of the Governance Committee
- (3) Chair of the Compensation Committee
- (4) Chair of the Risk Management Committee

Subject to approval by the board, the Association may allow directors an annual retainer of \$28,000 to be paid monthly. The chairs of the Compensation, Governance and Risk Management committees also receive \$2,000. The chair of the audit committee receives \$5,000, and the chair of the Board receives \$7,000. All additional compensation amounts are annual stipends, paid monthly. Total compensation paid to directors as a group was \$326,000 for 2023. No director received more than \$5,000 in non-cash compensation during the year.

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$98,612 for 2023, \$72,457 for 2022 and \$33,210 for 2021.

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

Keith D. Mixon, Chair, is a citrus grower and past Chair of the board of the Florida Fruit and Vegetable Association. He and his family owned and operated SunnyRidge Farms prior to being sold to Dole Food Company, he then served as President of Dole Berry Company. Mr. Mixon is a member of the DAC committee. His principal occupation and employment for the past five years has been self-employed farmer.

Randy L. Larson, Vice-Chair, was appointed to the Board in December 2016 as the Association's second Outside Director. He is a licensed professional engineer, a registered general contractor in Florida. His principal occupation and employment for the past five years has been with R Larson Company.

Daniel T. Aprile was elected to the Board in April 2019. Mr. Aprile is the Manager of Golden A Cattle Company, LLC and Aprile Farms, Inc. located in Tampa. Mr. Aprile is a former member of the Hillsborough County Independent Oversight Committee and on the Hillsborough County Agricultural Economic Development Council. He is also a past president of the Hillsborough County Farm Bureau. His principal occupation and employment for the past five years has been with Golden A Cattle Company, LLC and Aprile Farms, Inc.

Erin H. Archey was elected to the Board in June 2023. Mrs. Archey is the Corporate Treasurer for A. DUDA & Sons, Inc. She currently serves on the DUDA Board of Directors, the St. Luke's Lutheran Church and School Foundation, and the Seminole County Farm Bureau Board, where she previously served as President. Her principal occupation and employment for the past five years has been with DUDA.

Robert M. Behr was re-elected to the Board in June 2022. Dr. Behr is the former CEO of Florida's Natural Growers and having retired from that role at the end of 2022 still remains active in the organization as a citrus grower supplying fruit through its Cooperative Members. Florida's Natural Growers is a citrus growing, processing, and marketing cooperative. Dr. Behr is also a member of the CoBank board of directors. His principal occupation and employment for the past five years has been as the CEO of Florida's Natural Growers and its subsidiaries.

Jenny R. Black has served on the Board since 2014. Mrs. Black is a partner in multiple citrus growing operations and is a member of Peace River Packing, a citrus growing cooperative. Mrs. Black has more than 20 years experience in the Information Technology field, and her primary employment since 2008 has been managing her own IT consulting practice. Jenny Black Consulting, LLC serves clients in the transportation and agriculture industries. Mrs. Black was elected to the AgFirst Farm Credit Bank Board in August 2018 and is a director of the Farm Credit Council, a trade organization. Mrs. Black also serves on the Polk County 4-H Foundation Board and the National Watermelon Promotion Board.

C. Dennis Carlton, Jr. was elected to the Board in June 2022. Mr. Carlton is a cattleman and partner in Carlton and Carlton Ranches and Audubon Ranch which are cow/calf operations throughout Central Florida. He is the owner/operator of D Carlton LLC, a real estate holding company and is active in real estate working under Mid-State Realty. He is also a strawberry grower in Hillsborough County. He serves on Hillsborough County Farm Bureau as President, the Seffner Christian Academy Board and the Ag Economic Development Council. Mr. Carlton's principal occupation and employment for the past five years has been with Carlton and Carlton Ranches and D Carlton LLC.

W. Rex Clonts, Jr. is a citrus and vegetable grower. He is also past President of Seminole County Farm Bureau 2013 - 2015, 2019-20. Mr. Clonts is also a Director Emeritus of the Florida Fruit and Vegetable Association. His principal occupation and employment for the past five years has been with Clonts Farms, Inc.

Reed C. Fischbach is a real estate broker specializing in sales, development and management of agricultural land. Mr. Fischbach serves on the Brandon Regional Hospital Board of Trustees. His principal occupation and employment for the past five years has been with Fischbach Land Company.

David A. Mereness was appointed to the Board in March 2016 as the Association's Outside Director. Mr. Mereness is a partner in Dearolf & Mereness LLP, a member of the American Institute of Certified Public Accountants, the Florida Institute of Certificated Public Accounts, and on the board of the National Society of Accountants for Cooperatives. His principal occupation and employment for the past five years has been with Dearolf & Mereness LLP.

Timothy D. Schaal was elected to the board in June 2022. Mr. Schaal is CEO of Airtec Sprayers, Inc. a specialized manufacturer of agricultural spraying equipment. Mr. Schaal is a Certified Public Accountant and a member of the American and Florida Institutes of Certified Public Accountants. He is also the managing partner in a Citrus Under Protective Screen (CUPS) fresh grapefruit grove. Mr. Schaal serves as the Chairman for the Boys and Girls Clubs of Polk County. His principal occupation since 2011 has been with Airtec Sprayers, Inc.

Transactions with Senior Officers and Directors

The reporting entity’s policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

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

Aggregate fees for services rendered by its Independent Auditor for the year ended December 31, 2023 were as follows:

| | 2023 |
|----------------------------|-------------|
| <i>Independent Auditor</i> | |
| PricewaterhouseCoopers LLP | |
| Audit services | \$ 99,360 |
| Total | \$ 99,360 |

PricewaterhouseCoopers audit fees were for the annual audit of and for rendering an opinion on the Association’s Consolidated Financial Statements.

Consolidated Financial Statements

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

Copies of the Association’s Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-800-533-2773 or writing Anne M. Sullivan, Chief Financial Officer, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802 or accessing the web site, www.farmcreditfl.com. The Association prepares an electronic version of the Annual Report which is available on the Association’s web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank’s Annual and Quarterly reports are available upon request free of charge by calling

1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

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

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

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

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

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



David A. Mereness
Chair of the Audit Committee

Members of Audit Committee

Robert M. Behr, Vice Chair
W. Rex Clonts, Jr.
Reed C. Fischbach
Keith D. Mixon
Timothy D. Schaal

March 7, 2024



Report of Independent Auditors

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

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes



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

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

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

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

Other Information

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

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

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 7, 2024

Consolidated Balance Sheets

| <i>(dollars in thousands)</i> | December 31, | | |
|---|---------------------|-------------------|-------------------|
| | 2023 | 2022 | 2021 |
| Assets | | | |
| Cash | \$ 11 | \$ 11 | \$ 11 |
| Investments in debt securities: | | | |
| Held to maturity (fair value of \$79,730, \$1,788, and \$2,720, respectively) | 79,085 | 1,808 | 2,748 |
| Loans | 880,994 | 825,785 | 757,407 |
| Allowance for loan losses | (2,058) | (4,378) | (3,067) |
| Net loans | 878,936 | 821,407 | 754,340 |
| Loans held for sale | 7,800 | — | — |
| Accrued interest receivable | 6,231 | 4,248 | 2,877 |
| Equity investments in other Farm Credit institutions | 15,584 | 10,927 | 6,755 |
| Premises and equipment, net | 4,277 | 4,428 | 4,801 |
| Other property owned | 501 | — | — |
| Accounts receivable | 10,967 | 7,347 | 13,760 |
| Other assets | 4,603 | 4,764 | 4,847 |
| Total assets | \$ 1,007,995 | \$ 854,940 | \$ 790,139 |
| Liabilities | | | |
| Notes payable to AgFirst Farm Credit Bank | \$ 844,626 | \$ 694,754 | \$ 635,922 |
| Accrued interest payable | 3,418 | 2,004 | 1,117 |
| Patronage refunds payable | 8,793 | 10,262 | 11,761 |
| Accounts payable | 1,552 | 1,643 | 1,469 |
| Advanced conditional payments | 902 | — | — |
| Other liabilities | 10,028 | 9,826 | 12,562 |
| Total liabilities | 869,319 | 718,489 | 662,831 |
| Commitments and contingencies (Note 11) | | | |
| Members' Equity | | | |
| Capital stock and participation certificates | 1,209 | 1,212 | 1,149 |
| Retained earnings | | | |
| Allocated | 16,406 | 17,827 | 19,103 |
| Unallocated | 120,369 | 116,802 | 107,687 |
| Accumulated other comprehensive income (loss) | 692 | 610 | (631) |
| Total members' equity | 138,676 | 136,451 | 127,308 |
| Total liabilities and members' equity | \$ 1,007,995 | \$ 854,940 | \$ 790,139 |

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

Consolidated Statements of Comprehensive Income

| <i>(dollars in thousands)</i> | For the year ended December 31, | | |
|---|---------------------------------|-----------|-----------|
| | 2023 | 2022 | 2021 |
| Interest Income | | | |
| Loans | \$ 51,001 | \$ 36,966 | \$ 28,104 |
| Investments | 3,102 | 46 | 58 |
| Total interest income | 54,103 | 37,012 | 28,162 |
| Interest Expense | 31,388 | 17,462 | 11,806 |
| Net interest income | 22,715 | 19,550 | 16,356 |
| Provision for (reversal of) allowance for credit losses | 6,139 | 1,258 | (340) |
| Net interest income after provision for (reversal of) allowance for credit losses | 16,576 | 18,292 | 16,696 |
| Noninterest Income | | | |
| Loan fees | 768 | 698 | 860 |
| Fees for financially related services | 2,532 | 3,884 | 2,628 |
| Patronage refunds from other Farm Credit institutions | 8,383 | 10,771 | 13,573 |
| Gains (losses) on sales of rural home loans, net | 157 | 240 | 337 |
| Gains (losses) on sales of premises and equipment, net | — | — | 57 |
| Gains (losses) on other transactions | (649) | (61) | 85 |
| Other noninterest income | 6 | 2 | 7 |
| Total noninterest income | 11,197 | 15,534 | 17,547 |
| Noninterest Expense | | | |
| Salaries and employee benefits | 9,997 | 9,143 | 8,624 |
| Occupancy and equipment | 1,104 | 990 | 976 |
| Insurance Fund premiums | 1,300 | 1,279 | 868 |
| Purchased services | 512 | 503 | 547 |
| Data processing | 218 | 161 | 167 |
| Other operating expenses | 2,351 | 2,484 | 2,026 |
| (Gains) losses on other property owned, net | 12 | 1 | (158) |
| Total noninterest expense | 15,494 | 14,561 | 13,050 |
| Income before income taxes | 12,279 | 19,265 | 21,193 |
| Provision for income taxes | — | — | 35 |
| Net income | \$ 12,279 | \$ 19,265 | \$ 21,158 |
| Other comprehensive income net of tax | | | |
| Employee benefit plans adjustments | 82 | 1,241 | 193 |
| Comprehensive income | \$ 12,361 | \$ 20,506 | \$ 21,351 |

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

Consolidated Statements of Changes in Members' Equity

| <i>(dollars in thousands)</i> | Capital Stock and Participation Certificates | Retained Earnings | | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|---|---|-------------------|----------------|--|-----------------------------|
| | | Allocated | Unallocated | | |
| Balance at December 31, 2020 | \$ 1,008 | \$ 20,380 | \$ 98,129 | \$ (824) | \$ 118,693 |
| Comprehensive income | | | 21,158 | 193 | 21,351 |
| Capital stock/participation certificates issued/(retired), net | 141 | | | | 141 |
| Patronage distribution Cash | | | (11,600) | | (11,600) |
| Retained earnings retired | | (1,277) | | | (1,277) |
| Balance at December 31, 2021 | \$ 1,149 | \$ 19,103 | \$ 107,687 | \$ (631) | \$ 127,308 |
| Comprehensive income | | | 19,265 | 1,241 | 20,506 |
| Capital stock/participation certificates issued/(retired), net | 63 | | | | 63 |
| Patronage distribution Cash | | | (10,150) | | (10,150) |
| Retained earnings retired | | (1,276) | | | (1,276) |
| Balance at December 31, 2022 | \$ 1,212 | \$ 17,827 | \$ 116,802 | \$ 610 | \$ 136,451 |
| Cumulative effect of change in accounting principle | | | 38 | | 38 |
| Comprehensive income | | | 12,279 | 82 | 12,361 |
| Capital stock/participation certificates issued/(retired), net | (3) | | | | (3) |
| Patronage distribution Cash | | | (8,500) | | (8,500) |
| Retained earnings retired | | (1,421) | | | (1,421) |
| Patronage distribution adjustment | | | (250) | | (250) |
| Balance at December 31, 2023 | \$ 1,209 | \$ 16,406 | \$ 120,369 | \$ 692 | \$ 138,676 |

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

Consolidated Statements of Cash Flows

| <i>(dollars in thousands)</i> | For the year ended December 31, | | |
|--|---------------------------------|-----------|-----------|
| | 2023 | 2022 | 2021 |
| Cash flows from operating activities: | | | |
| Net income | \$ 12,279 | \$ 19,265 | \$ 21,158 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation on premises and equipment | 378 | 384 | 411 |
| Amortization (accretion) of net deferred loan costs (fees) | (324) | (201) | (124) |
| Premium amortization (discount accretion) on investments in debt securities | 716 | 53 | 57 |
| Provision for (reversal of) allowance for credit losses | 6,139 | 1,258 | (340) |
| (Gains) losses on other property owned | (4) | — | (169) |
| (Gains) losses on sales of premises and equipment, net | — | — | (57) |
| (Gains) losses on sales of rural home loans, net | (157) | (240) | (337) |
| (Gains) losses on other transactions | 649 | 61 | (85) |
| Changes in operating assets and liabilities: | | | |
| Origination of loans held for sale | (16,631) | (9,865) | (13,407) |
| Proceeds from sales of loans held for sale, net | 8,310 | 10,105 | 13,744 |
| (Increase) decrease in accrued interest receivable | (1,983) | (1,371) | (206) |
| (Increase) decrease in accounts receivable | (3,620) | 6,413 | (2,730) |
| (Increase) decrease in other assets | 161 | 83 | 185 |
| Increase (decrease) in accrued interest payable | 1,414 | 887 | 167 |
| Increase (decrease) in accounts payable | (91) | 174 | 676 |
| Increase (decrease) in other liabilities | 43 | (1,556) | 2,422 |
| Total adjustments | (5,000) | 6,185 | 207 |
| Net cash provided by (used in) operating activities | 7,279 | 25,450 | 21,365 |
| Cash flows from investing activities: | | | |
| Purchases of investments in debt securities, held to maturity | (84,782) | — | — |
| Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity | 6,789 | 887 | 1,161 |
| Net (increase) decrease in loans | (63,580) | (68,124) | (99,063) |
| (Increase) decrease in equity investments in other Farm Credit institutions | (4,657) | (4,172) | (119) |
| Purchases of premises and equipment | (227) | (11) | (276) |
| Proceeds from sales of premises and equipment | — | — | 57 |
| Proceeds from sales of other property owned | 47 | — | 398 |
| Net cash provided by (used in) investing activities | (146,410) | (71,420) | (97,842) |
| Cash flows from financing activities: | | | |
| Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net | 149,872 | 58,832 | 87,208 |
| Net increase (decrease) in advanced conditional payments | 902 | — | — |
| Capital stock and participation certificates issued/(retired), net | (3) | 63 | 141 |
| Patronage refunds and dividends paid | (10,219) | (11,649) | (9,596) |
| Retained earnings retired | (1,421) | (1,276) | (1,277) |
| Net cash provided by (used in) financing activities | 139,131 | 45,970 | 76,476 |
| Net increase (decrease) in cash | — | — | (1) |
| Cash, beginning of period | 11 | 11 | 12 |
| Cash, end of period | \$ 11 | \$ 11 | \$ 11 |
| Supplemental schedule of non-cash activities: | | | |
| Receipt of property in settlement of loans | \$ 543 | \$ — | \$ 2 |
| Estimated cash dividends or patronage distributions declared or payable | 8,500 | 10,150 | 11,600 |
| Cumulative effect of change in accounting principle | 38 | — | — |
| Employee benefit plans adjustments (Note 9) | (82) | (1,241) | (193) |
| Supplemental information: | | | |
| Interest paid | \$ 29,974 | \$ 16,575 | \$ 11,639 |
| Taxes (refunded) paid, net | (9) | 9 | 34 |

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 Central Florida, ACA (the Association or ACA) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Brevard, Citrus, Hernando, Hillsborough, Lake, Orange, Osceola, Pasco, Pinellas, Polk, Seminole, Sumter, and Volusia in the state of Florida.

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

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

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

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

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

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

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

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

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information systems, and marketing. The costs of these support services are included in 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 | \$ 4,378 | \$ (149) | \$ 4,229 |
| Liabilities: | | | |
| Allowance for credit losses on unfunded commitments | \$ – | \$ 111 | \$ 111 |
| Retained earnings: | | | |
| Unallocated retained earnings | \$ 116,802 | \$ 38 | \$ 116,840 |

Upon adoption of CECL guidance, the investments held-to-maturity are presented net of an allowance for credit losses on investments. As part of the Association's implementation of the standard, it was determined that there would not be a material impact to the Association's investment portfolio and as a result, there was no ACL on investments recorded.

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

C. Loans and Allowance for 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 to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected.

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral Dependent Loans

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

Allowance for Credit Losses

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

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

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

Methodology for Allowance for Credit Losses on Loans

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

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

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

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

The 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.

Investments in Debt Securities

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

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

Other Equity Investments

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

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.

Allowance for Credit Losses on Investments

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

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

Investment Income

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

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

- H. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.
- I. **Employee Benefit Plans:** The Association participates in District and multi-district sponsored benefit plans. These plans may include defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

Defined Contribution Plans

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

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

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans

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

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

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

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

Single Employer Defined Benefit Plan

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

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. See Note 9 for additional information.

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

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

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

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

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

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

- L. Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

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

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

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

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

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

Additional information may be found in Note 8.

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

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

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

Note 3 — Loans and Allowance for Credit Losses

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

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor.

The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the Board of Directors.

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

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (see further discussion in Note 2 subsection 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 | \$ 515,314 | \$ 491,531 | \$ 450,053 |
| Production and intermediate-term | 169,523 | 174,627 | 177,705 |
| Agribusiness: | | | |
| Loans to cooperatives | 11,574 | 8,574 | 6,591 |
| Processing and marketing | 89,819 | 86,916 | 76,109 |
| Farm-related business | 35,391 | 31,173 | 21,115 |
| Rural infrastructure: | | | |
| Communication | 23,323 | 8,661 | 4,961 |
| Power and water/waste disposal | 13,266 | 1,443 | 1,442 |
| Rural residential real estate | 16,351 | 16,420 | 12,993 |
| Other: | | | |
| International | 6,433 | 6,440 | 6,438 |
| Total loans | <u>\$ 880,994</u> | <u>\$ 825,785</u> | <u>\$ 757,407</u> |

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 | \$ 30,162 | \$ 89,391 | \$ 8,914 | \$ 21,044 | \$ - | \$ - | \$ 39,076 |
| Production and intermediate-term | 31,679 | 64,363 | 1,965 | - | - | - | 33,644 | 64,363 |
| Agribusiness | 63,035 | 72,763 | 3,156 | 34,575 | - | - | 66,191 | 107,338 |
| Rural infrastructure | 36,730 | - | - | - | - | - | 36,730 | - |
| Other | 6,445 | - | - | - | - | - | 6,445 | - |
| Total | \$ 168,051 | \$ 226,517 | \$ 14,035 | \$ 55,619 | \$ - | \$ - | \$ 182,086 | \$ 282,136 |

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 | \$ 21,636 | \$ 82,545 | \$ 4,344 | \$ 21,702 | \$ - | \$ - | \$ 25,980 |
| Production and intermediate-term | 34,722 | 70,753 | 5,762 | 5,123 | - | - | 40,484 | 75,876 |
| Agribusiness | 61,295 | 66,904 | 3,260 | 34,072 | - | - | 64,555 | 100,976 |
| Rural infrastructure | 10,133 | - | - | - | - | - | 10,133 | - |
| Other | 6,446 | - | - | - | - | - | 6,446 | - |
| Total | \$ 134,232 | \$ 220,202 | \$ 13,366 | \$ 60,897 | \$ - | \$ - | \$ 147,598 | \$ 281,099 |

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 | \$ 24,579 | \$ 59,693 | \$ - | \$ 32,855 | \$ - | \$ - | \$ 24,579 |
| Production and intermediate-term | 26,787 | 69,623 | 17,630 | 2,450 | - | - | 44,417 | 72,073 |
| Agribusiness | 50,625 | 44,090 | 839 | 26,653 | - | - | 51,464 | 70,743 |
| Rural infrastructure | 6,441 | - | - | - | - | - | 6,441 | - |
| Other | 6,446 | - | - | - | - | - | 6,446 | - |
| Total | \$ 114,878 | \$ 173,406 | \$ 18,469 | \$ 61,958 | \$ - | \$ - | \$ 133,347 | \$ 235,364 |

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 | 99.44% | 99.37% | 99.75% |
| OAEM | 0.42 | 0.54 | 0.08 |
| Substandard/doubtful/loss | 0.14 | 0.09 | 0.17 |
| | 100.00% | 100.00% | 100.00% |
| Production and intermediate-term: | | | |
| Acceptable | 96.35% | 92.97% | 96.50% |
| OAEM | 1.76 | 0.74 | 0.28 |
| Substandard/doubtful/loss | 1.89 | 6.29 | 3.22 |
| | 100.00% | 100.00% | 100.00% |
| Agribusiness: | | | |
| Acceptable | 91.53% | 99.99% | 100.00% |
| OAEM | 2.90 | - | - |
| Substandard/doubtful/loss | 5.57 | .01 | - |
| | 100.00% | 100.00% | 100.00% |
| Rural infrastructure: | | | |
| Acceptable | 100.00% | 100.00% | 100.00% |
| OAEM | - | - | - |
| Substandard/doubtful/loss | - | - | - |
| | 100.00% | 100.00% | 100.00% |
| Rural residential real estate: | | | |
| Acceptable | 99.17% | 97.84% | 98.19% |
| OAEM | - | 0.66 | 0.65 |
| Substandard/doubtful/loss | 0.83 | 1.50 | 1.16 |
| | 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 | 97.64% | 98.09% | 99.00% |
| OAEM | 1.03 | 0.49 | 0.13 |
| Substandard/doubtful/loss | 1.33 | 1.42 | 0.87 |
| | 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 \$5,354, \$4,228, and \$2,861 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 | | | | | Total Loans |
|-------------------------------|-----------------------------------|-----------------------------|-------------------|--|------------|-------------|
| | 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 | | |
| Real estate mortgage | \$ 2,080 | \$ 1,609 | \$ 3,689 | \$ 511,625 | \$ 515,314 | |
| Processing and marketing | 1,522 | 2,666 | 4,188 | 165,335 | 169,523 | |
| Agribusiness | - | - | - | 136,784 | 136,784 | |
| Rural infrastructure | - | - | - | 36,589 | 36,589 | |
| Rural residential real estate | 147 | - | 147 | 16,204 | 16,351 | |
| Other | - | - | - | 6,433 | 6,433 | |
| Total | \$ 3,749 | \$ 4,275 | \$ 8,024 | \$ 872,970 | \$ 880,994 | |

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 | \$ 176 | \$ 1,778 | \$ 1,954 | \$ 492,439 | \$ 494,393 | |
| Production and intermediate-term | 141 | 1,398 | 1,539 | 173,888 | 175,427 | |
| Agribusiness | 8 | — | 8 | 127,101 | 127,109 | |
| Rural infrastructure | — | — | — | 10,117 | 10,117 | |
| Rural residential real estate | 326 | 99 | 425 | 16,060 | 16,485 | |
| Other | — | — | — | 6,482 | 6,482 | |
| Total | \$ 651 | \$ 3,275 | \$ 3,926 | \$ 826,087 | \$ 830,013 | |

| 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 | \$ 360 | \$ 1,996 | \$ 2,356 | \$ 449,788 | \$ 452,144 | |
| Production and intermediate-term | 189 | 1,504 | 1,693 | 176,500 | 178,193 | |
| Agribusiness | — | — | — | 104,034 | 104,034 | |
| Rural infrastructure | — | — | — | 6,404 | 6,404 | |
| Rural residential real estate | 168 | 16 | 184 | 12,858 | 13,042 | |
| Other | — | — | — | 6,451 | 6,451 | |
| Total | \$ 717 | \$ 3,516 | \$ 4,233 | \$ 756,035 | \$ 760,268 | |

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

| December 31, 2023 | |
|---|-----------------|
| Nonaccrual loans: | |
| Real estate mortgage | \$ 1,713 |
| Production and intermediate-term | 3,297 |
| Rural residential real estate | 21 |
| Total | <u>\$ 5,031</u> |
| Accruing loans 90 days or more past due: | |
| Total | <u>\$ —</u> |
| Total nonperforming loans | \$ 5,031 |
| Other property owned | 501 |
| Total nonperforming assets | <u>\$ 5,532</u> |
| Nonaccrual loans as a percentage of total loans | 0.57% |
| Nonperforming assets as a percentage of total loans and other property owned | 0.63% |
| Nonperforming assets as a percentage of capital | <u>3.99%</u> |

| | December 31, 2022* | December 31, 2021* |
|---|--------------------|--------------------|
| Nonaccrual loans: | | |
| Real estate mortgage | \$ 1,778 | \$ 2,510 |
| Production and intermediate-term | 7,928 | 1,857 |
| Agribusiness | 8 | — |
| Rural residential real estate | 125 | 16 |
| Total | <u>\$ 9,839</u> | <u>\$ 4,383</u> |
| Accruing restructured loans: | | |
| Real estate mortgage | \$ 394 | \$ 708 |
| Production and intermediate-term | 1,060 | 1,404 |
| Rural residential real estate | — | 135 |
| Total | <u>\$ 1,454</u> | <u>\$ 2,247</u> |
| Accruing loans 90 days or more past due: | | |
| Total | <u>\$ —</u> | <u>\$ —</u> |
| Total nonperforming loans | \$ 11,293 | \$ 6,630 |
| Other property owned | — | — |
| Total nonperforming assets | <u>\$ 11,293</u> | <u>\$ 6,630</u> |
| Nonaccrual loans as a percentage of total loans | 1.19% | 0.58% |
| Nonperforming assets as a percentage of total loans and other property owned | 1.37% | 0.88% |
| Nonperforming assets as a percentage of capital | <u>8.28%</u> | <u>5.21%</u> |

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

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

| Nonaccrual loans: | December 31, 2023 | | | Interest Income |
|----------------------------------|-------------------|--------------|----------|--------------------|
| | Amortized | Amortized | Total | Recognized on |
| | Cost with | Cost without | | Nonaccrual Loans |
| | Allowance | Allowance | | For the Year Ended |
| | | | | December 31, 2023 |
| Real estate mortgage | \$ 77 | \$ 1,636 | \$ 1,713 | \$ 94 |
| Production and intermediate-term | 2,965 | 332 | 3,297 | 181 |
| Rural residential real estate | – | 21 | 21 | 1 |
| Total | \$ 3,042 | \$ 1,989 | \$ 5,031 | \$ 276 |

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

| | Real Estate Mortgage | Production and Intermediate-term | Agribusiness | Rural Infrastructure | Rural Residential Real Estate | Other | Total |
|---|----------------------|----------------------------------|--------------|----------------------|-------------------------------|-------|----------|
| Allowance for Loan Losses: | | | | | | | |
| Balance at December 31, 2022 | \$ 124 | \$ 3,942 | \$ 274 | \$ 9 | \$ 27 | \$ 2 | \$ 4,378 |
| Cumulative effect of a change in accounting principle | (5) | (65) | (80) | (3) | 3 | 1 | (149) |
| Balance at January 1, 2023 | \$ 119 | \$ 3,877 | \$ 194 | \$ 6 | \$ 30 | \$ 3 | \$ 4,229 |
| Charge-offs | (709) | (8,677) | – | – | – | – | (9,386) |
| Recoveries | 1,135 | 51 | 34 | – | 15 | – | 1,235 |
| Provision for loan losses | (477) | 6,301 | 153 | 42 | (39) | – | 5,980 |
| Balance at December 31, 2023 | \$ 68 | \$ 1,552 | \$ 381 | \$ 48 | \$ 6 | \$ 3 | \$ 2,058 |
| Allowance for Unfunded Commitments: | | | | | | | |
| Balance at December 31, 2022 | \$ – | \$ – | \$ – | \$ – | \$ – | \$ – | \$ – |
| Cumulative effect of a change in accounting principle | 16 | 47 | 47 | 1 | – | – | 111 |
| Balance at January 1, 2023 | \$ 16 | \$ 47 | \$ 47 | \$ 1 | \$ – | \$ – | \$ 111 |
| Provision for unfunded commitments | 1 | (4) | 161 | 1 | – | – | 159 |
| Balance at December 31, 2023 | \$ 17 | \$ 43 | \$ 208 | \$ 2 | \$ – | \$ – | \$ 270 |
| Total allowance for credit losses | \$ 85 | \$ 1,595 | \$ 589 | \$ 50 | \$ 6 | \$ 3 | \$ 2,328 |
| Allowance for Loan Losses*: | | | | | | | |
| Balance at December 31, 2021 | \$ 1,033 | \$ 1,750 | \$ 257 | \$ 8 | \$ 17 | \$ 2 | \$ 3,067 |
| Charge-offs | – | (7) | – | – | (1) | – | (8) |
| Recoveries | 20 | 37 | – | – | 4 | – | 61 |
| Provision for loan losses | (929) | 2,162 | 17 | 1 | 7 | – | 1,258 |
| Balance at December 31, 2022 | \$ 124 | \$ 3,942 | \$ 274 | \$ 9 | \$ 27 | \$ 2 | \$ 4,378 |
| Balance at December 31, 2020 | \$ 1,195 | \$ 1,775 | \$ 258 | \$ 20 | \$ 33 | \$ 2 | \$ 3,283 |
| Charge-offs | – | (7) | – | – | – | – | (7) |
| Recoveries | 36 | 75 | – | – | 20 | – | 131 |
| Provision for loan losses | (198) | (93) | (1) | (12) | (36) | – | (340) |
| Balance at December 31, 2021 | \$ 1,033 | \$ 1,750 | \$ 257 | \$ 8 | \$ 17 | \$ 2 | \$ 3,067 |

*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 \$195,707, \$192,118, and \$129,596 at December 31, 2023, 2022, and 2021, respectively. Fees paid for such guarantee commitments totaled \$664, \$503, and \$422 for 2023, 2022, and 2021, respectively. 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 \$7,800, \$0, and \$0 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.

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

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

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

| | Total TDRs | | Nonaccrual TDRs | |
|----------------------------------|--------------|----------|-----------------|--------|
| | December 31, | | December 31, | |
| | 2022* | 2021* | 2022* | 2021* |
| Real estate mortgage | \$ 394 | \$ 708 | \$ — | \$ — |
| Production and intermediate-term | 1,149 | 1,506 | 89 | 102 |
| Rural residential real estate | 83 | 135 | 83 | — |
| Total loans | \$ 1,626 | \$ 2,349 | \$ 172 | \$ 102 |
| Additional commitments to lend | \$ — | \$ — | | |

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

Note 4 — Investments

Investments in Debt Securities

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

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

| | December 31, 2023 | | | | |
|------|-------------------|------------------------|-------------------------|------------|-------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| ABSs | \$ 79,085 | \$ 967 | \$ (322) | \$ 79,730 | 8.11% |

| | December 31, 2022 | | | | |
|------|-------------------|------------------------|-------------------------|------------|-------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| ABSs | \$ 1,808 | \$ 4 | \$ (24) | \$ 1,788 | 6.22% |

| | December 31, 2021 | | | | |
|------|-------------------|------------------------|-------------------------|------------|-------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| ABSs | \$ 2,748 | \$ 7 | \$ (35) | \$ 2,720 | 3.09% |

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

| | December 31, 2023 | | |
|------------------------------------|-------------------|------------|------------------------|
| | Amortized Cost | Fair Value | Weighted Average Yield |
| In one year or less | \$ 2 | \$ 2 | 7.27% |
| After one year through five years | — | — | — |
| After five years through ten years | 39,969 | 39,946 | 8.70 |
| After ten years | 39,114 | 39,782 | 7.50 |
| Total | \$ 79,085 | \$ 79,730 | 8.11% |

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

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

| | December 31, 2022 | | | |
|------|---------------------|-------------------|----------------------|-------------------|
| | Less than 12 Months | | 12 Months or Greater | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| ABSs | \$ 298 | \$ (1) | \$ 930 | \$ (23) |

| | December 31, 2021 | | | |
|------|---------------------|-------------------|----------------------|-------------------|
| | Less than 12 Months | | 12 Months or Greater | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| ABSs | \$ 2 | \$ — | \$ 1,578 | \$ (35) |

The Association evaluates investment securities with unrealized losses for impairment on a quarterly basis, based upon the updated guidance following the adoption of CECL. As part of this assessment, it was concluded that the Association does not intend to sell the security, or it is not more likely than not that the Association would be required to sell the security prior to recovery of the amortized cost basis. The Association also evaluates whether credit impairment exists by comparing the present value of expected cash flows to the amortized cost basis of the security. Credit impairment, if any, is recorded as an ACL for debt securities. At December 31, 2023, the Association does not consider any unrealized losses to be credit-related and an allowance for credit losses is not necessary.

Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled \$14,552 for 2023, \$10,005 for 2022 and \$5,983 for 2021. The Association owned 2.80 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled \$45.0 billion and shareholders' equity totaled \$1.7 billion. The Bank's earnings were \$265 million for 2023. In addition, the Association had investments of \$1,032 related to other Farm Credit institutions at December 31, 2023.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

| | December 31, | | |
|--------------------------------|--------------|----------|----------|
| | 2023 | 2022 | 2021 |
| Land | \$ 658 | \$ 658 | \$ 658 |
| Buildings and improvements | 4,117 | 3,956 | 3,945 |
| Furniture and equipment | 1,676 | 1,647 | 1,647 |
| | 6,451 | 6,261 | 6,250 |
| Less: accumulated depreciation | 2,174 | 1,833 | 1,449 |
| Total | \$ 4,277 | \$ 4,428 | \$ 4,801 |

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

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

The weighted average interest rates on the variable rate advances were 6.31 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 6.25 percent for Prime-based loans, and the weighted average remaining maturities were 4.4 years and 5.9 years, respectively, at December 31, 2023. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.37 percent, and the weighted average remaining maturity was 14.4 years at December 31, 2023. The weighted average interest rate on all interest-bearing notes payable was 4.38 percent and the weighted average remaining maturity was 11.2 years at December 31, 2023. Variable rate and fixed rate notes payable represent approximately 21.77 percent and 78.23 percent, respectively, of total notes payable at December 31, 2023. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

- A. **Protected Borrower Equity:** Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities 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 equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.
- B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the 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 revolvment, 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 revolvment less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average total assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios:

| Ratio | Minimum Requirement | Capital Conservation Buffer | Minimum Requirement including Capital Conservation Buffer | Capital Ratios as of December 31, | | |
|---------------------------|---------------------|-----------------------------|---|-----------------------------------|--------|--------|
| | | | | 2023 | 2022 | 2021 |
| Risk-adjusted ratios: | | | | | | |
| CET1 Capital | 4.5% | 2.5% | 7.0% | 15.58% | 17.82% | 16.74% |
| Tier 1 Capital | 6.0% | 2.5% | 8.5% | 15.58% | 17.82% | 16.74% |
| Total Capital | 8.0% | 2.5% | 10.5% | 15.95% | 18.26% | 17.17% |
| Permanent Capital | 7.0% | 0.0% | 7.0% | 15.64% | 17.80% | 16.81% |
| Non-risk-adjusted ratios: | | | | | | |
| Tier 1 Leverage* | 4.0% | 1.0% | 5.0% | 12.87% | 15.88% | 16.32% |
| URE and UREE Leverage | 1.5% | 0.0% | 1.5% | 11.27% | 13.71% | 14.34% |

* 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:

| Class | Protected | Shares Outstanding | |
|--|-----------|--------------------|---------------------|
| | | Number | Aggregate Par Value |
| C Common/Voting | No | 201,049 | \$ 1,005 |
| C Participation Certificates/Nonvoting | No | 40,687 | 204 |
| Total Capital Stock and Participation Certificates | | 241,736 | \$ 1,209 |

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 that minimum capital standards established by the FCA and the Board are met.

At December 31, 2023, allocated members' equity consisted of \$130 of qualified surplus, \$14,124 of nonqualified allocated surplus and \$2,152 of nonqualified retained surplus. Nonqualified distributions are tax deductible only when redeemed.

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 and 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 dividends paid on Classes A, B or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B and 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, Classes A, B and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

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

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

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:

- a) **First**, to the holders of Class A Preferred and Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;
- b) **Second**, to the holders of Class A Common Stock, Class B Common Stock, Class C Common Stock, Class E Common Stock, and Class B Participation Certificates and Class C Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificate then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
- c) **Third**, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
- d) **Fourth**, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
- e) **Fifth**, in so far as practicable, all unallocated surplus issued after April 15, 1999, shall be distributed to Patrons of the Association from the period beginning April 15, 1999, through the date of liquidation, on a patronage basis; and
- f) **Sixth**, any remaining assets of the Association after such distributions shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

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

E. Accumulated Other Comprehensive Income (AOCI):

| | Changes in Accumulated Other Comprehensive income by Component (a) | | | | | |
|---|--|-------|------|-------|------|-------|
| | For the Year Ended December 31, | | | | | |
| | 2023 | | 2022 | | 2021 | |
| Employee Benefit Plans: | | | | | | |
| Balance at beginning of period | \$ | 610 | \$ | (631) | \$ | (824) |
| Other comprehensive income before reclassifications | | 225 | | 1,022 | | (20) |
| Amounts reclassified from AOCI | | (143) | | 219 | | 213 |
| Net current period OCI | | 82 | | 1,241 | | 193 |
| Balance at end of period | \$ | 692 | \$ | 610 | \$ | (631) |

| | Reclassifications Out of Accumulated Other Comprehensive Income (b) | | | | | | |
|---------------------------------------|---|------|------|----------------------------|----|-------|-------------|
| | For the Year Ended December 31, | | | | | | |
| | 2023 | 2022 | 2021 | Income Statement Line Item | | | |
| Defined Benefit Pension Plans: | | | | | | | |
| Periodic pension costs | \$ | 143 | \$ | (219) | \$ | (213) | See Note 9. |
| Amounts reclassified | \$ | 143 | \$ | (219) | \$ | (213) | |

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 8 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 for a more complete description of the three levels.

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

| | December 31, 2023 | | | | | | | |
|----------------------------|------------------------------|---------|---------|---|----|------------------|----|-------|
| | Fair Value Measurement Using | | | | | Total Fair Value | | |
| | Level 1 | Level 2 | Level 3 | | | | | |
| Recurring assets | | | | | | | | |
| Assets held in trust funds | \$ | 1,020 | \$ | — | \$ | — | \$ | 1,020 |
| Nonrecurring assets | | | | | | | | |
| Impaired loans | \$ | — | \$ | — | \$ | 1,779 | \$ | 1,779 |
| Other property owned | \$ | — | \$ | — | \$ | 501 | \$ | 501 |

| | December 31, 2022 | | | | | |
|----------------------------|------------------------------|---------|----------|------|------|------------------|
| | Fair Value Measurement Using | | | | | Total Fair Value |
| | Level 1 | Level 2 | Level 3 | | | |
| Recurring assets | | | | | | |
| Assets held in trust funds | \$ 945 | \$ – | \$ – | \$ – | \$ – | \$ 945 |
| Nonrecurring assets | | | | | | |
| Impaired loans | \$ – | \$ – | \$ 6,680 | \$ – | \$ – | \$ 6,680 |
| Other property owned | \$ – | \$ – | \$ – | \$ – | \$ – | \$ – |

| | December 31, 2021 | | | | | |
|----------------------------|------------------------------|---------|----------|------|------|------------------|
| | Fair Value Measurement Using | | | | | Total Fair Value |
| | Level 1 | Level 2 | Level 3 | | | |
| Recurring assets | | | | | | |
| Assets held in trust funds | \$ 816 | \$ – | \$ – | \$ – | \$ – | \$ 816 |
| Nonrecurring assets | | | | | | |
| Impaired loans | \$ – | \$ – | \$ 3,670 | \$ – | \$ – | \$ 3,670 |
| Other property owned | \$ – | \$ – | \$ – | \$ – | \$ – | \$ – |

Valuation Techniques

Assets held in trust funds

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

Impaired loans

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

Other property owned

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

Note 9 — Employee Benefit Plans

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

1. Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

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

1. The Employer Identification Number (EIN) and three-digit Pension Plan Number.
2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were \$366 for 2023, \$463 for 2022, and \$927 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 \$252 for 2023, \$241 for 2022, and \$199 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 \$554, \$507, and \$459 for the years ended December 31, 2023, 2022, and 2021, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2023, 2022, and 2021, \$82, \$1,241, and \$193 has been recognized as net credits to AOCI to reflect these elements.

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

In addition to the multiemployer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of \$827 and a net under-funded status of \$827 at December 31, 2023. Assumptions used to determine the projected benefit obligation as of December 31, 2023 included a discount rate of 5.00 percent and a rate of compensation increase of 3.50 percent. The expenses of these nonqualified plans included in noninterest expenses were \$(62), \$328, and \$310 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 gross loans to such persons at December 31, 2023 amounted to \$146,657. During 2023, \$3,660 of new loans were made and repayments totaled \$5,483. 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, \$126,933 of commitments to extend credit and \$21 of commercial letters of credit were outstanding. A reserve for unfunded commitments of \$270 was included in Other Liabilities on the Consolidated Balance Sheets at December 31, 2023.

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 \$590 with expiration dates ranging from January 1, 2024 to November 17, 2027. The maximum potential amount of future payments that may be required under these guarantees was \$590.

Note 12 — Income Taxes

At December 31, 2023, 2022 and 2021, the Association recorded \$0, \$0, and \$35, respectively for provision or benefit for federal or state income taxes.

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

| | December 31, | | |
|---------------------------------------|--------------|----------|----------|
| | 2023 | 2022 | 2021 |
| Federal tax at statutory rate | \$ 2,579 | \$ 4,046 | \$ 4,450 |
| Effect of non-taxable FLCA subsidiary | (496) | (2,128) | (1,938) |
| Patronage distributions | (2,080) | (2,131) | (2,436) |
| Change in valuation allowance | (26) | 212 | (43) |
| Change in statutory rate | | - | - |
| Other | 23 | 1 | 2 |
| Provision (benefit) for income taxes | \$ - | \$ - | \$ 35 |

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

| | December 31, | | |
|---|--------------|----------|---------|
| | 2023 | 2022 | 2021 |
| Deferred income tax assets: | | | |
| Allowance for loan losses | \$ 156 | \$ 1,019 | \$ 656 |
| Net operating loss – carryforward | 6,397 | 5,540 | 5,637 |
| Nonaccrual loan interest | 23 | 84 | 93 |
| Gross deferred tax assets | 6,576 | 6,643 | 6,386 |
| Less: valuation allowance | (6,556) | (6,587) | (6,334) |
| Gross deferred tax assets, net of valuation allowance | 20 | 56 | 52 |
| Deferred income tax liabilities: | | | |
| Loan origination fees | (20) | (56) | (52) |
| Gross deferred tax liability | (20) | (56) | (52) |
| Net deferred tax asset (liability) | \$ - | \$ - | \$ - |

At December 31, 2023, deferred income taxes have not been provided by the Association on approximately \$1.2 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$6,556, \$6,587 and \$6,334 as of December 31, 2023, 2022 and 2021, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

At December 31, 2023 the Association has Federal loss carryforwards totaling approximately \$25.2 million that expire in varying amounts beginning in 2026. Of this, \$5.3 million of the net operating losses were generated post 2017 and can be carried forward indefinitely. The valuation allowance at December 31, 2023 was primarily related to federal loss carryforwards that, in the judgment of management, are more likely than not to expire before realized. In evaluating the Company's ability to recover its deferred income tax assets, it considers all available evidence, both positive and negative, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis.

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

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

Note 13— Leases

Lessee

The Association leases certain assets, consisting primarily of real estate, transportation and office equipment, under standard industry terms. The contracts are assessed at inception to determine whether a contract is, or contains, a lease.

The components of lease costs were as follows:

| | Year Ended December 31, | | |
|--|-------------------------|--------|--------|
| | 2023 | 2022 | 2021 |
| Operating lease cost | \$ 386 | \$ 381 | \$ 377 |
| Variable lease cost (costs excluded from lease payments) | 150 | 113 | 110 |
| Sublease income | — | — | — |
| Lease costs | \$ 536 | \$ 494 | \$ 487 |

Other information related to leases was as follows:

| | Year Ended December 31, | | |
|---|-------------------------|--------|--------|
| | 2023 | 2022 | 2021 |
| Cash paid for amounts included in the measurement of lease liabilities: | | | |
| Operating cash flows from operating leases | \$ 423 | \$ 409 | \$ 395 |
| Right-of-use assets obtained in exchange for lease obligations: | | | |
| Operating leases | \$ 3 | \$ 38 | \$ 4 |

Lease term and discount rate for the periods ended were as follows:

| | December 31, | | |
|---|--------------|-------|-------|
| | 2023 | 2022 | 2021 |
| Weighted average remaining lease term in years: | | | |
| Operating leases | 11.96 | 12.95 | 14.00 |
| Weighted average discount rate: | | | |
| Operating leases | 3.10% | 3.10% | 3.09% |

Maturities of lease liabilities as of period end were as follows:

| | Operating Leases December 31, 2023 |
|-------------------------|---------------------------------------|
| 2023 | \$ 430 |
| 2024 | 439 |
| 2025 | 449 |
| 2026 | 456 |
| 2027 | 464 |
| Thereafter | 3,586 |
| Total lease payments | 5,824 |
| Less: imputed interest | 992 |
| Total lease liabilities | \$ 4,832 |

Note 14 — Additional Financial Information

Quarterly Financial Information (Unaudited)

| | 2023 | | | | |
|---|----------|----------|----------|----------|-----------|
| | First | Second | Third | Fourth | Total |
| Net interest income | \$ 5,574 | \$ 5,678 | \$ 5,764 | \$ 5,699 | \$ 22,715 |
| Provision for (reversal of) allowance for credit losses | 5,061 | 96 | 472 | 510 | 6,139 |
| Noninterest income (expense), net | (1,361) | (731) | (1,499) | (706) | (4,297) |
| Net income | \$ (848) | \$ 4,851 | \$ 3,793 | \$ 4,483 | \$ 12,279 |

| | 2022 | | | | |
|---|----------|----------|----------|----------|-----------|
| | First | Second | Third | Fourth | Total |
| Net interest income | \$ 4,372 | \$ 4,579 | \$ 4,847 | \$ 5,752 | \$ 19,550 |
| Provision for (reversal of) allowance for loan losses | — | — | — | 1,258 | 1,258 |
| Noninterest income (expense), net | (1,429) | (76) | (1,805) | 4,283 | 973 |
| Net income | \$ 2,943 | \$ 4,503 | \$ 3,042 | \$ 8,777 | \$ 19,265 |

| | 2021 | | | | |
|---|----------|----------|----------|-----------|-----------|
| | First | Second | Third | Fourth | Total |
| Net interest income | \$ 3,866 | \$ 3,908 | \$ 4,064 | \$ 4,518 | \$ 16,356 |
| Provision for (reversal of) allowance for loan losses | (215) | (160) | 85 | (50) | (340) |
| Noninterest income (expense), net | (965) | (115) | (1,528) | 7,070 | 4,462 |
| Net income | \$ 3,116 | \$ 3,953 | \$ 2,451 | \$ 11,638 | \$ 21,158 |

Note 15 — Subsequent Events

The Association determined that there were no subsequent events requiring disclosure through March 7, 2024, which was the date the financial statements were issued.



FARM CREDIT
OF CENTRAL FLORIDA

204 East Orange Street
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Lakeland, FL 33801

PRSR STD
U.S. POSTAGE
PAID
COLUMBIA SC
PERMIT 1160

Branch Locations and Territory

Our Locations

LAKELAND

204 E. Orange St. | Suite 200
Lakeland, FL 33801
863.682.4117 (Admin. Office)

APOPKA

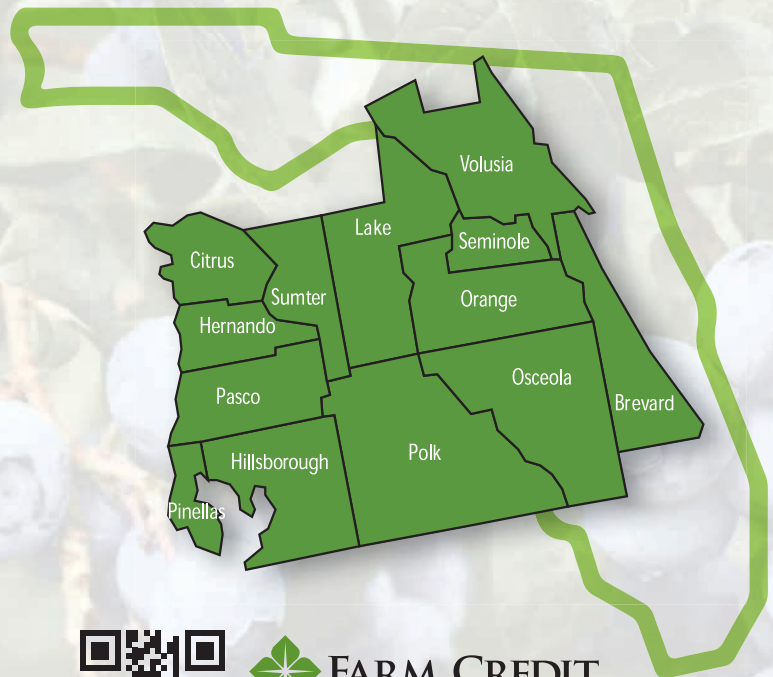
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