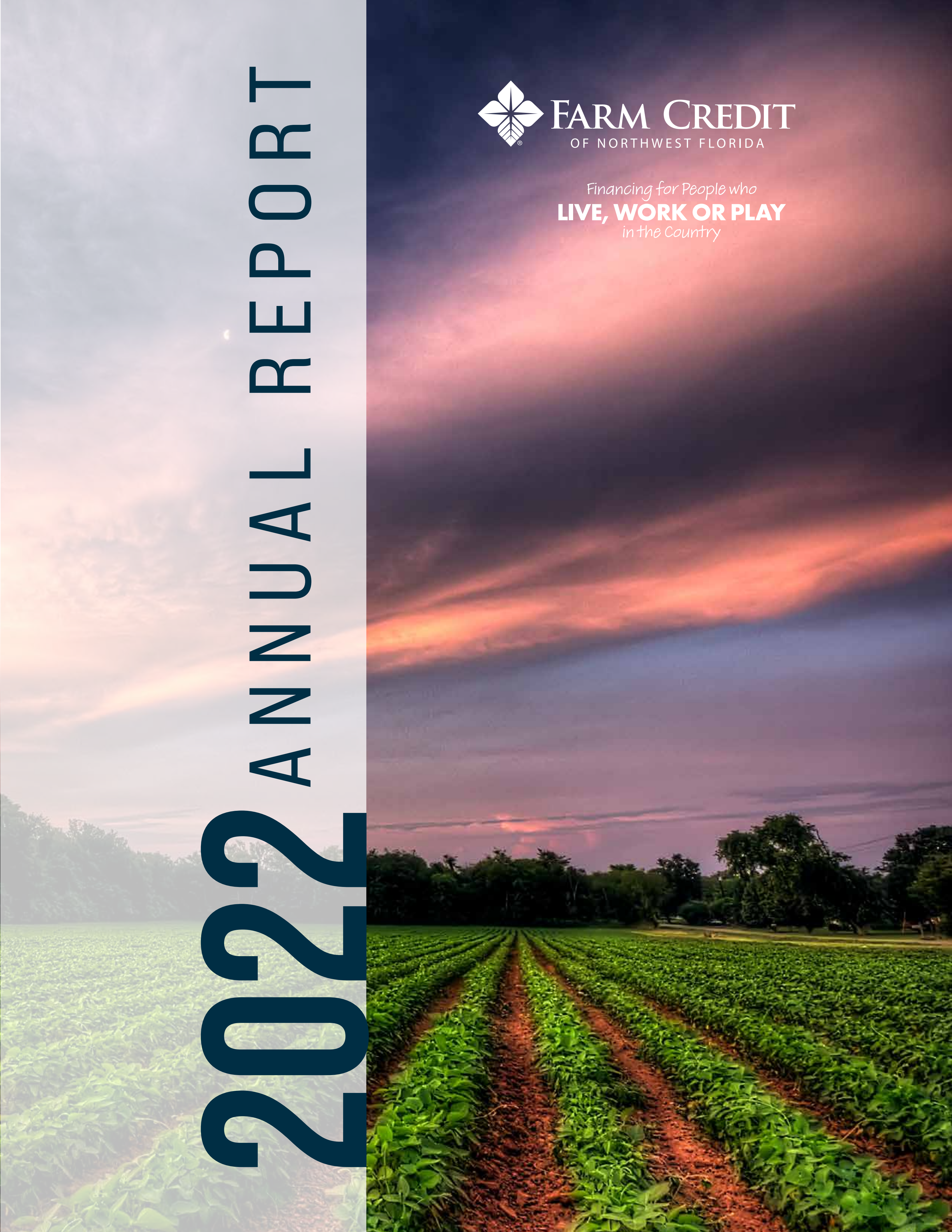

2022 ANNUAL REPORT

FARM CREDIT
OF NORTHWEST FLORIDA

Financing for People who
LIVE, WORK OR PLAY
in the Country

Farm Credit of Northwest Florida, ACA

2022 Annual Report

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Management

John R. Gregory ... President & Chief Executive Officer
John P. Mottice ... Chief Financial Officer
Chuck Thiele ... Chief Credit Officer
DeAndrea Barber ... Chief Operations Officer
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Michael Digmon ... Chief Lending Officer

Board of Directors

D. Mark Fletcher ... Chairman
R. Douglas Walker ... Vice Chairman
Damon Boutwell ... Director
Cindy S. Eade ... Director
Ernest C. Fulford ... Director
Jacob Gilmore ... Director
Dana Powell ... Director
Glen Strange ... Director
Richard Terry ... Director
Michael Thompson ... Director
David Yoder ... Director

Message from the President

Dear Members,

On behalf of the Board of Directors, management and staff of Farm Credit of Northwest Florida, ACA, I am pleased to present the 2022 Annual Report for your Association. As you review it, you will quickly see that 2022 was a good year, from the overall financial result to the growth in our Young, Beginning and Small farmer (YBS) outreach. I wrote to you last year about the uniqueness of your member-owned Association and the value of a locally owned and managed financial institution in raising capital to invest in support of our members' financial and personal goals in this community. One year into the role has only strengthened my belief in the importance of locally owned and managed associations to serve the needs of members and the Farm Credit Mission throughout both our local communities and the nation overall.

Financial Performance & Patronage:
The Association posted another strong year of loan growth in 2022 with $130 million of gross new loans. 2022 marks our second straight year of more than $100 million in gross loan growth and third consecutive year of net loan growth. More than the dollars, the people behind these loans are most important. These new dollars represent almost 300 new relationships with Farm Credit of Northwest Florida and, of these, nearly half were families looking to purchase or build a home in our communities. Though this strong growth is obviously good, growth is not our goal but the result of the Association's staff and management doing their jobs well. As with any business, the Association must serve the needs of the people in its communities if it is going to prosper. Our strong performance in 2022 is confirmation we are working to serve your needs. Thank you for trusting us with your business.

My favorite characteristic of the Association and the Farm Credit System as a whole, is its cooperative structure: that we are all working together. A key part of your ownership in the Association is the distribution of its profits to you in the form of patronage. The Association's strong performance in 2022 allowed the Board of Directors to declare a $4.0 million cash distribution to members from 2022 earnings, which equals a roughly one percent effective reduction in your interest rate. I am pleased we can deliver these profits to you. Yet, also acknowledge though the 2022 distribution is in line with or better than patronage distributions from 2017 to 2019, it is less than the past two years. I want to take a moment to discuss that change with you.

For the past several years the Association has distributed patronage in two separate payments representing the patronage from its core business earnings and "special" patronage driven by the performance of our funding bank, AgFirst Farm Credit Bank. In much the same way as we distribute our earnings to our members, AgFirst also distributes its earnings to its member associations. As I mentioned in my letter last year, AgFirst and the entire District are in the middle of the largest renovation of our systems and processes in our history. We are excited about new tools to drive efficiency and better serve you, yet this renovation comes at considerable District-wide investment. The combination of this investment with the upward move in interest rates during 2022 caused AgFirst to dramatically reduce special patronage in 2022. AgFirst, moreover, no longer expects to make this "special" distribution that we have passed through to our members the past two years.

The Association's 2022 core business earnings were the strongest since 2017. I'm highlighting this because the Association's ability to grow its earnings by focusing on what we can control, regardless of what occurs in the District, is essential to remaining a strong, locally owned Association for the long haul. While patronage cannot be guaranteed, please know that the Board and management fully intend to grow our core earnings to support a one percent or better effective rate reduction for the foreseeable future.

In 2022, your Association also grew its people with additional investment in staffing to assure we provide the best service to our members in 2023 and beyond. I'm proud of the Association's ability to be an employer of choice that offers the type of long-term career that can support a family in our rural communities.

Economic Outlook:
From an inverted yield curve due to the Federal Reserve's battle with generationally high inflation to high labor and input costs and slowing home and auto lending, there appear to be clouds on the economic horizon. As a member, I want you to know that, though finance and agriculture are cyclical businesses, your Association is well positioned for any bumps in the road. We are very well capitalized with excellent credit quality that is historically strong to the point it can withstand potential adversity while continuing to support Association operations. As with the entire Farm Credit System, the Association changed how it calculates its loan loss reserves beginning in 2023 under the new Current Expected Credit Loss standard (CECL). Although this change will not be apparent in our annual report until next year, as a member, you should understand that moving to CECL will likely create more volatility in the Association's financial statements as it reserves for loans, yet this reserve will remain robust. I first started working for Farm Credit of Northwest Florida in April 2008 and as such, am very attuned to managing the risk in the Association for long-term growth and safety.

Project Updates:
In my letter last year, I focused on the once-in-a-generation change coming to the Association and the entire AgFirst District as we renovate and replace nearly all key systems for making, administering and accounting for loans. These changes are years in the making and will begin having a practical impact on the Association in 2023. Some changes will be readily apparent to you, such as a new website and much improved online banking tools to help you more easily manage your Farm Credit accounts. Other changes are behind the scenes and will be felt by members in 2024 and beyond in terms of quicker decisions and a more responsive Association. These changes represent both significant investment by the entire AgFirst District and a large amount of work by your Association's staff – I would like to extend my thanks and the thanks of the Board to all staff for both the work that has been done and the large amount of work that is ongoing in 2023.

Retirements & Thanks:
In closing, I'd like to recognize two departures from the Association in 2023. Sue Pudsey intends to retire in 2023 after nearly 25 years of service. Sue is currently a relationship specialist in our Milton Office, where she has been a fixture for a generation of members. At client events in 2022, I was struck by how Sue personified Farm Credit and its Mission for so many of the members I talked to. She will be greatly missed. Our Chief Financial Officer, John Mottice, also intends to retire in 2023. John has worked for the Association since 2011 and served as its CFO for the past nine years. He has been a steady hand, helping guide and mature the Association's finance team and its internal controls as it worked to recover from the financial crisis in 2008. Our strong risk bearing capacity and sound internal controls today are a result of his good work these past many years. The Board of Directors, management and staff would all like to congratulate Sue and John on their well-deserved retirements and thank them for their service to our members and our community.

My first year as your CEO has been a wonderful experience. It has been a joy to work with the good team of individuals who keep Northwest Florida moving forward. It is rewarding to see the positive results of this work, both in the numbers contained in this report and in the experience of our members. I am very encouraged at both the direction of our Association and of the Farm Credit System as a whole, particularly in the ability of small associations, like Northwest Florida, to thrive locally. As I concluded last year, if you ever need something from me, have a question or just want to talk, please contact me at jgregory@farmcredit-fl.com or call 850-209-2649. Thank you for trusting Farm Credit of Northwest Florida as your financial partner.

Sincerely,

John R. Gregory
Chief Executive Officer

March 9, 2023

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this Annual Report have been prepared by management of Farm Credit of Northwest Florida, ACA (Association) in accordance with accounting principles generally accepted in the United States and 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 2022 Annual Report of Farm Credit of Northwest Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

D. Mark Fletcher

D. Mark Fletcher
Chairman of the Board

John R. Gregory
Chief Executive Officer

John P. Mottice
Chief Financial Officer

March 9, 2023

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2022	2021	2020	2019	2018
Balance Sheet Data					
Loans	**$ 354,384**	$ 318,613	$ 299,608	$ 284,180	$ 288,415
Allowance for loan losses	**(4,980)**	(4,968)	(4,912)	(4,529)	(4,529)
Net loans	**349,404**	313,645	294,696	279,651	283,886
Equity investments in other Farm Credit institutions	**4,268**	2,932	3,018	3,370	3,346
Other property owned	**14**	45	—	4	118
Other assets	**7,413**	10,392	9,037	8,364	8,790
Total assets	**$ 361,099**	$ 327,014	$ 306,751	$ 291,389	$ 296,140
Notes payable to AgFirst Farm Credit Bank*	**$ 264,071**	$ 230,976	$ 213,221	$ 200,279	$ 204,857
Accrued interest payable and other liabilities with maturities of less than one year	**7,899**	9,571	8,891	7,135	7,477
Total liabilities	**271,970**	240,547	222,112	207,414	212,334
Capital stock and participation certificates	**1,444**	1,393	1,274	1,132	1,050
Retained earnings					
Allocated	**36,420**	36,420	36,420	37,244	40,321
Unallocated	**51,265**	48,654	46,945	45,599	42,435
Total members' equity	**89,129**	86,467	84,639	83,975	83,806
Total liabilities and members' equity	**$ 361,099**	$ 327,014	$ 306,751	$ 291,389	$ 296,140
Statement of Income Data					
Net interest income	**$ 9,694**	$ 9,257	$ 8,876	$ 8,851	$ 8,829
Provision for (reversal of) allowance for loan losses	**(192)**	—	—	(207)	(142)
Noninterest income (expense), net	**(2,926)**	(1,179)	(1,680)	(2,644)	(2,118)
Net income	**$ 6,960**	$ 8,078	$ 7,196	$ 6,414	$ 6,853
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.08%**	2.56%	2.49%	2.26%	2.37%
Total members' equity	**7.82%**	9.25%	8.34%	7.47%	8.00%
Net interest income as a percentage of average earning assets	**2.92%**	2.96%	3.11%	3.16%	3.13%
Net (chargeoffs) recoveries to average loans	**0.062%**	0.018%	0.134%	0.074%	0.025%
Total members' equity to total assets	**24.68%**	26.44%	27.59%	28.82%	28.30%
Debt to members' equity (:1)	**3.05**	2.78	2.62	2.47	2.53
Allowance for loan losses to loans	**1.41%**	1.56%	1.64%	1.59%	1.57%
Permanent capital ratio	**24.02%**	26.02%	27.56%	28.56%	27.41%
Common equity tier 1 capital ratio	**23.72%**	25.69%	27.22%	28.20%	27.07%
Tier 1 capital ratio	**23.72%**	25.69%	27.22%	28.20%	27.07%
Total regulatory capital ratio	**24.97%**	26.95%	28.47%	29.46%	28.32%
Tier 1 leverage ratio**	**24.49%**	26.51%	28.38%	29.20%	27.95%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**24.08%**	26.21%	28.21%	28.32%	25.90%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 4,000**	$ 6,369	$ 5,850	$ 3,250	$ 3,000

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2023.*

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Farm Credit of Northwest Florida, ACA, (Association) for the year ended December 31, 2022, with comparisons to the years ended December 31, 2021 and December 31, 2020. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

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

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

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

Copies of the Association's Annual and Quarterly Reports are also available upon request free of charge on the Association's website, ***www.farmcredit-fl.com***, or by calling 1-850-526-4910 or writing John Mottice, Chief Financial Officer, Farm Credit of Northwest Florida, P.O. Box 7000, Marianna, FL 32447.

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

FORWARD-LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

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

The USDA's February 2023 forecast estimates net farm income (income after expenses from production in the current year; a broader measure of profits) for 2022 at $162.7 billion, a $21.8 billion increase from 2021 and $70.0 billion above the 10-year average. The forecasted increase in net farm income for 2022, compared with 2021, is primarily due to increases in cash receipts for animals and animal products of $61.9 billion to $257.7 billion and crop receipts of $44.7 billion to 285.7 billion, partially offset by a decrease of $10.3 billion to $15.6 billion in direct government payments and an increase in cash expenses of $65.7 billion to $411.1 billion. If realized, 2022 net farm income (in real dollars of $167.3 billion) would be the highest level since 1973 when net farm income was $172.9 billion adjusted for real dollars.

The USDA's outlook projects net farm income for 2023 at $136.9 billion, a $25.8 billion or 15.9 percent decrease from 2022, but $44.2 billion above the 10-year average. The forecasted decrease in net farm income for 2023 is primarily due to an expected decrease in cash receipts for animals and animal products of $14.7 billion, crop receipts of $8.8 billion and direct government payments of $5.4 billion, as well as an increase in cash expenses of $13.7 billion. The decrease in cash receipts for animals and animal products are predicted for milk, hogs, broilers and eggs, while cattle receipts are forecast to increase. The expected decline in cash receipts for crops is primarily driven by decreases in corn, soybeans, vegetables and melon receipts, while receipts for wheat are expected to increase. Most production expenses are expected to remain elevated, while feed expenses are projected to decline in 2023 after rising significantly in 2022. Fertilizer-lime-soil conditioner expenses are expected to have peaked in 2022 but remain high in 2023. In addition, interest and labor are forecasted to increase, while fuel and oil expenses are projected to decline.

Working capital (which is defined as cash and cash convertible assets minus liabilities due to creditors within 12 months) is forecasted to increase 5.4 percent in 2022 to $133.4 billion from $126.5 billion in 2021. Although working capital increased, it remains far below the peak of $165 billion in 2012.

The value of farm real estate accounted for 83 percent of the total value of the U.S. farm sector assets for 2022 according to the USDA in its February 2023 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 10.6 percent in 2022. Farm real estate value is expected to increase 10.1 percent and non-real estate farm assets are expected to increase 9.7 percent, while farm sector debt is forecast to increase 6.3 percent in 2022. Farm real estate debt as a share of total debt has been rising since 2014 and is expected to account for 69.3 percent of total farm debt in 2022.

The USDA is forecasting farm sector solvency ratios to improve in 2022 to 15.1 percent for the debt-to-equity ratio and 13.1 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 on planted/harvested acreage of crops or inventory of livestock and thus, 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, 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 certain crops, by hundredweight for hogs, milk and beef cattle, and by pound for broilers and turkeys, from December 31, 2019 to December 31, 2022:

Commodity	12/31/22	12/31/21	12/31/20	12/31/19
Hogs	$ 62.50	$ 56.50	$ 49.10	$ 47.30
Milk	$ 24.70	$ 21.70	$ 18.30	$ 20.70
Broilers	$ 0.71	$ 0.74	$ 0.44	$ 0.45
Turkeys	$ 1.20	$ 0.84	$ 0.72	$ 0.62
Corn	$ 6.58	$ 5.47	$ 3.97	$ 3.71
Soybeans	$ 14.40	$ 12.50	$ 10.60	$ 8.70
Wheat	$ 8.98	$ 8.59	$ 5.46	$ 4.64
Beef Cattle	$ 154.00	$ 137.00	$ 108.00	$ 118.00

Geographic and commodity diversification across the Association's territory, 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 Association'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 2022. Non-farm income support for many borrowers also helps to mitigate the impact of periods of less favorable agricultural conditions. However, agricultural borrowers who are more reliant on non-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

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

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

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

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

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

ECONOMIC CONDITIONS

Florida Economy

The University of Central Florida's Institute for Economic Forecasting forecasts a recession for the U.S. economy in 2023, which is expected to pull Florida's economy into recession as well. UCF projects annual Florida Real Gross State Product (GSP) increased by 3.4 percent in 2022, after growing by 8.4 percent in 2021 as the state recovered from the impact of the COVID-19 public health shutdowns. Florida's Real GSP is expected to grow an average of 0.6 percent during 2023-2026, with a recession projected to slow growth to -1.3% in 2023. Growth for Florida's economy over the next four years is expected to be slower than the average of forecasted real GDP growth for the U.S. economy. Florida payroll job growth is projected to be 5.2 percent in 2022, following growth of 4.6 percent in 2021. Total payroll jobs are expected to contract by 0.8 percent in 2023 and again by 2.1 percent in 2024, before expanding by 0.5 percent in 2025 and 1.1 percent in 2026. Payroll job growth is forecasted to slightly underperform the national economy until 2026. Labor force growth in Florida is projected to average 0.8 percent from 2023-2026. After growing 3.0 percent in 2022, Florida's labor force growth is expected to decelerate in 2023-2024 due to the projected recession, then accelerate in 2025-2026.

Additional key factors for the Florida economy include:

- Sectors expected to have the strongest average job growth during 2023-2026 are Education & Health Services, State & Local Government, Financial Services, Federal Government, and Leisure & Hospitality.
- Housing starts are beginning to decline under the burden of high prices and rising mortgage rates. Total housing starts are forecasted at 192,294 in 2022, 133,829 in 2023, 134,755 in 2024, 149,920 in 2025 and 152,865 in 2026. Rapid housing price appreciation is vanishing as supply catches up with demand that is dampened by rising mortgage rates, decreasing affordability and an impending recession.
- Real personal income growth is expected to average 2.0 percent during 2023-2026. Florida's average real personal income growth is projected to be 0.3 percent higher than the national rate.
- Retail sales are forecasted to increase at an average pace of 1.1 percent during 2023-2026, with a few quarters of negative growth during the projected recession.

The Florida housing market remains historically tight, fueling rapid price appreciation. The November 2022 single-family home report released by Florida Realtors® reflects price appreciation due to depleted inventory. The median sales price for single-family homes increased by $35,100 in November 2022, year over year, and now stands at $400,000, an annual increase of 9.6 percent. Inventories of single-family homes represent just 2.8 months of supply, indicating an inventory balance that is skewed heavily in favor of sellers in the single-family market. Distressed sales of single-family homes in the form of short sales continue to plummet year over year, down 75 percent, as have foreclosure/REO sales, down 17.2 percent.

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

Overall, the Florida economy is forecasted to experience a mild recession in 2023, before rebounding in 2024. Growth is projected to be moderate in 2024-2026 and trail the national average. Agriculture in Florida has benefited from rising commodity prices in 2022 but is facing headwinds due to increasing input costs and declining direct government payments.

Regional Economy

The Northwest Florida/Panhandle area has a permanent population of 1.6 million and a workforce of over 619,000. The Association's eighteen county region includes over 25 percent of the state's counties and 20 percent of Florida's land mass. The area economy is driven by tourism, government, service and manufacturing industries. Three research universities – Florida State University, Florida A&M University, and the University of West Florida – provide research in a variety of disciplines. The region's military facilities provide contract opportunities for a number of local, regional and national companies, while also providing a source of skilled and dedicated workers after they separate from the military.

The regional economy as a whole has recovered from the trough of the COVID-19 pandemic. Employment in the eighteen-county region is up 3.9 percent from June 2021. Florida statewide employment is up 6.5 percent over the same period. The recovery has been uneven within the Association's territory, with coastal counties and MSA regions recording the strongest employment growth.

Anchored by the metro areas of Tallahassee to the east and Pensacola to the west, with local economies in between driven by agriculture, tourism and a strong military base presence, economic growth in the Panhandle is typically less cyclical than peninsular Florida. Economic growth is forecasted to increase during 2023-2026, with each of the four Metropolitan Statistical Areas expected to generate positive growth.

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

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

Agricultural Economy

The agricultural economy in Northwest Florida experienced an overall average year in 2022. Growing conditions across the territory were good during the bulk of the growing season with some pockets of wet weather occurring in the summer months. Weather conditions have been generally favorable during harvest resulting in no significant delays. Please see below for additional information on the primary commodity groups served by the Association.

Forestry –
The southern United States continues to be a world leader in traditional and emerging timber products due to a favorable exchange rate, strong infrastructure of mills, productive forestland, and updated market strategies. "Stumpage" prices for three of the five major products (pine chip-n-saw, hardwood saw timber, and hardwood pulpwood) in the Association's territory increased year over year due to the strength of the residential housing market. However, housing starts are already being impacted by the rapid increase in mortgage rates. Timberland values remained steady in 2022. Bioenergy and wood pellet industries continue to develop and grow.

Row Crops –
World cotton demand is projected to decrease to 115.6 million bales in 2022/23. World supply is expected to outpace demand, resulting in an increase in ending stocks to 87.9 million bales. In the U.S., the 2022 harvested area was forecasted at 7.9 million acres compared with 9.9 million acres in 2021. The national yield is estimated at 855 pounds per harvested acre compared with 819 pounds in 2021. Total U.S. cotton production in 2022 is projected at 14 million bales, a decrease of 3.5 million bales or 20 percent over the 2021 crop. Cotton prices for 2022 varied from the lower 70 cents per pound range to over $1.33 per pound, with the price peaking in the summer and retreating towards the lower end of the range around harvest time.

U.S. corn production is estimated at 13.9 billion bushels in 2022/23, a decrease of 1.1 billion bushels from the previous year. Yields are forecasted at 172.3 bushels per acre. Growers in the U.S. planted approximately 88.6 million acres in 2022, a decrease from the previous year. U.S. ending stocks are projected to decrease to 1.2 billion bushels. The majority of corn grown in Northwest Florida is used for feed and sold locally, often receiving a positive basis resulting in a cash price higher than reported national prices.

Livestock –
After reaching a low in 2014, rebuilding of the U.S. cattle herd began in 2015 and continued through 2019. The USDA reported slight declines in herd size in 2020 through 2022. U.S. beef sector production and exports are both up compared to 2021. Profitability has remained relatively unchanged year over year as the increase in cattle prices in 2022 was offset by generally higher feed expenses. Beef production is estimated at 28.3 billion pounds for 2022. The USDA forecasts a slight decline in beef production for 2023 to 26.3 billion pounds. Exposure to swine and poultry within the Association's territory is very limited.

Peanuts –
Acreage for the 2022 crop was down 121,000 acres from 2021 plantings of 1.58 million acres. Harvested acres in 2022 were forecasted at 1.41 million acres, a decline of 8.4 percent from 2021. Early reports indicate the peanut crop yield will be average, with average yields exceeding 4,000 pounds per acre. Production is forecasted to decrease by 9.2 percent in 2022 to 5.7 billion pounds. Domestic peanut use has continued to increase, with exports declining since 2019. However, exports are expected to increase slightly in 2022 to approximately 1.2

billion pounds. Total use is projected to outpace production, resulting in a decrease in ending stocks to 2.1 billion pounds. Peanut prices on the national level averaged approximately $600/ton in 2022.

Dairy –
In 2022, average milk prices increased $7.16 per CWT from 2021 levels. Milk prices started the year off much stronger when compared to ending prices in 2021 and have exceeded 2021 prices each month. U.S. milk production in 2022 was anticipated to expand 1.0 percent year over year to 227 billion pounds. The national dairy herd declined slightly in 2022 to 9.4 million head. Exports continue to remain a key driver for milk prices. Feed costs increased significantly in 2022. Dairy prices are projected to increase throughout 2022, though not quickly enough to offset rising input costs.

LOAN PORTFOLIO

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

The gross loan volume of the Association as of December 31, 2022 was $354,384, an increase of $35,771 or 11.23 percent compared to $318,613 at December 31, 2021, which represented an increase of $19,005 or 6.34 percent compared to $299,608 at December 31, 2020. Net loans outstanding (gross loans net of the allowance for loan losses) at December 31, 2022 were $349,404, an increase of $35,759 or 11.40 percent compared to $313,645 at December 31, 2021, which represented an increase of $18,949 or 6.43 percent compared to $294,696 at December 31, 2020. Net loans accounted for 96.76 percent of total assets at December 31, 2022, compared to 95.91 percent of total assets at December 31, 2021 and 96.07 percent of total assets at December 31, 2020. The increases in gross loan volume and net loans outstanding in 2022 were due to increases in net originated loans and purchased participation loans, partially offset by an increase in sold participation loans and a decrease in nonaccrual loans.

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

Loan Type	December 31, 2022		2021		2020	
	(dollars in thousands)					
Real estate mortgage	$ 251,739	71.04%	$ 224,981	70.61%	$ 217,004	72.43%
Production and intermediate-term	59,557	16.81	61,990	19.46	58,073	19.38
Loans to cooperatives	1,693	0.48	1,594	0.50	1,475	0.49
Processing and marketing	13,539	3.82	8,278	2.60	9,078	3.03
Farm-related business	5,101	1.44	5,446	1.71	3,706	1.24
Communication	4,411	1.24	–	–	–	–
Rural residential real estate	16,691	4.71	15,280	4.80	9,229	3.08
International	1,653	0.46	1,044	0.32	1,043	0.35
Total	$ 354,384	100.00%	$ 318,613	100.00%	$ 299,608	100.00%

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

Branch	12/31/22	12/31/21	12/31/20
Marianna	26.40%	26.86%	27.84%
Milton	20.20	20.67	22.57
Tallahassee	16.06	15.98	18.10
Monticello	15.44	16.30	12.17
Special Assets	0.30	0.52	0.57
Home Loans	9.35	9.60	7.81
Capital Markets	11.46	10.07	10.94
Lifestyle Lending	0.79	–	–
Total	100.00%	100.00%	100.00%

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

The major commodities in the Association's loan portfolio are shown below. The predominant commodities are forestry, row crops, livestock, peanuts, rural homes, landlords and horticulture, which together constituted 86 percent of the entire portfolio at December 31, 2022.

Commodity Group	December 31, 2022		2021		2020	
	(dollars in thousands)					
Forestry	$ 166,889	47%	$ 141,367	44%	$ 130,547	43%
Row Crops	42,744	12	40,620	13	41,974	14
Livestock	32,799	9	35,363	11	34,854	11
Peanuts	20,496	6	18,332	6	17,296	6
Rural Homes	16,691	5	15,654	5	9,224	3
Landlords	11,225	3	12,805	4	14,136	5
Horticulture	11,953	3	11,592	4	8,175	3
Dairy	8,271	2	7,930	2	5,387	2
Hunting/Trapping/Game	3,918	1	4,330	1	14,060	5
Other	39,398	12	30,620	10	23,955	8
Total	$ 354,384	100%	$ 318,613	100%	$ 299,608	100%

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

During 2022, the Association was active in buying and selling loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, further strengthening its capital position.

Loan Participations	2022	2021	2020
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 40,684	$ 32,094	$ 32,675
Participations Purchased – Non-FCS Institutions	–	143	192
Participations Sold	(79,364)	(73,269)	(72,177)
Total	$ (38,680)	$ (41,032)	$ (39,310)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2022.

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon anticipated cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by a first lien on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. In addition, each loan is assigned a credit risk rating based upon the Association's underwriting standards. The credit risk rating process incorporates both objective and subjective criteria to identify inherent strengths, weaknesses and risks in loan transactions.

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

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

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

Credit Quality	2022	2021	2020
Acceptable & OAEM	98.06%	97.62%	98.38%
Substandard	1.94	2.38	1.62
Doubtful	–	–	–
Total	100.00%	100.00 %	100.00%

Nonperforming Assets

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

	12/31/22	12/31/21	12/31/20
	(dollars in thousands)		
High-risk Assets			
Nonaccrual loans	$ 203	$ 451	$ 1,266
Accruing loans 90 days past due	–	–	–
Total high-risk loans	203	451	1,266
Other property owned	14	45	–
Total high-risk assets	$ 217	$ 496	$ 1,266
Ratios			
Nonaccrual loans to total loans	0.06%	0.14%	0.42%
High-risk assets to total assets	0.06%	0.15%	0.41%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased by $248 or 54.99 percent in 2022. Of the $203 in nonaccrual loan volume at December 31, 2022, $182 or 89.66 percent was current as to scheduled principal and interest payments, compared to 54.10 percent and 53.32 percent at December 31, 2021 and 2020, respectively.

Other property owned (OPO) decreased by $31 or 68.89 percent in 2022. During 2022, equipment with a book value of $45 was sold. As of December 31, 2022, OPO consisted of equipment.

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

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses is determined according to accounting principles generally accepted in the United States.

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

Allowance for Loan Losses Activity:	**2022**	**2021**	**2020**
	(dollars in thousands)		
Balance at beginning of year	$ 4,968	$ 4,912	$ 4,529
Charge-offs:			
Real estate mortgage	(143)	(50)	(1)
Production and intermediate term	(7)	(175)	(30)
Agribusiness	–	–	–
Rural residential real estate	–	–	–
Total charge-offs	(150)	(225)	(31)
Recoveries:			
Real estate mortgage	250	254	138
Production and intermediate term	103	26	169
Agribusiness	1	1	11
Rural residential real estate	–	–	96
Total recoveries	354	281	414
Net (charge-offs) recoveries	204	56	383
Provision for (reversal) of allowance for loan losses	(192)	–	–
Balance at end of year	$ 4,980	$ 4,968	$ 4,912
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.062%	0.018%	0.134%

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

	December 31,		
Allowance for Loan Losses by Type	**2022**	**2021**	**2020**
	(dollars in thousands)		
Real estate mortgage	$ 3,536	$ 3,504	$ 3,561
Production and intermediate-term	840	971	948
Agribusiness	285	239	235
Rural residential real estate	234	238	151
Other	85	16	17
Total loans	$ 4,980	$ 4,968	$ 4,912

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

Allowance for Loan Losses	**December 31,**		
as a Percentage of:	**2022**	**2021**	**2020**
Total loans	1.41%	1.56%	1.64%
Nonperforming loans	388.76%	236.12%	164.89%
Nonaccrual loans	2,453.20%	1,101.55%	387.99%

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

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2022 totaled $6,960, a decrease of $1,118 or 13.84 percent compared to net income of $8,078 for 2021, which represented an increase of $882 or 12.26 percent compared to net income of $7,196 for 2020. The decrease in net income for 2022 was due primarily to decreased noninterest income and higher noninterest expense, partially offset by increased net interest income and a reversal of the allowance for loan losses. The increase in net income for 2021 was due primarily to increased noninterest income and net interest income, partially offset by increased noninterest expense. Major components of the changes in net income for the past two years are outlined in the following table. Further discussion of each component is provided in the sections below.

Change in Net Income:	**2022-2021**	**2021-2020**
	(dollars in thousands)	
Net income (loss) prior year	$ 8,078	$ 7,196
Increase (decrease) in net income due to:		
Interest income	1,970	218
Interest expense	(1,533)	163
Net interest income	437	381
Provision for loan losses	192	–
Noninterest income	(1,570)	1,313
Noninterest expense	(173)	(812)
Provision for income taxes	(4)	–
Total changes in income	(1,118)	882
Net income (loss)	$ 6,960	$ 8,078

Net Interest Income

Net interest income (before provision for or reversal of allowance for loan losses) for the year ended December 31, 2022 totaled $9,694, an increase of $437 or 4.72 percent compared to net interest income of $9,257 for 2021, which represented an increase of $381 or 4.29 percent compared to net interest income of $8,876 for 2020. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt.

Net interest income is impacted by changes to interest income and interest expense. Interest income for the year ended December 31, 2022 increased due to higher average loans outstanding and higher interest rates on loans. Interest expense increased for 2022 due to higher interest rates and higher average notes payable to AgFirst. Interest income for the year ended December 31, 2021 increased due to higher average loans outstanding, partially offset by lower interest rates on loans and decreased interest income recognized on nonaccrual loans. Interest expense decreased for 2021 due to lower interest rates, partially offset by higher average notes payable to AgFirst.

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

Change in Net Interest Income:

	Volume*	Rate	Total
	(dollars in thousands)		
12/31/22 - 12/31/21			
Interest income	$ 915	$ 1,055	$ 1,970
Interest expense	420	1,113	1,533
Change in net interest income	$ 495	$ (58)	$ 437
12/31/21 - 12/31/20			
Interest income	$ 1,350	$ (1,132)	$ 218
Interest expense	690	(853)	(163)
Change in net interest income	$ 660	$ (279)	$ 381

**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:

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2022**	**2021**	**2020**	**2022/ 2021**	**2021/ 2020**
	(dollars in thousands)				
Loan fees	$ 79	$ 94	$ 115	(15.96)%	(18.26)%
Patronage refunds from other Farm Credit Institutions	3,983	5,446	4,321	(26.86)	26.04
Other noninterest income	525	617	408	(14.91)	51.23
Total noninterest income	$ 4,587	$ 6,157	$ 4,844	(25.50)%	27.11 %

Noninterest income for the year ended December 31, 2022 totaled $4,587, a decrease of $1,570 or 25.50 percent compared to $6,157 in 2021, which represented an increase of $1,313 or 27.11 percent compared to noninterest income of $4,844 in 2020. The decrease in noninterest income for 2022 was due to decreases in loan fees, patronage refunds, gains on sales of rural home loans, and other gains, partially offset by increases in fees for financially related services, and other noninterest income. The increase in noninterest income for 2021 was due to increases in patronage refunds, gains on sales of rural home loans, fees for financially related services and other gains, partially offset by decreases in loan fees and other noninterest income. Special patronage refunds from AgFirst totaled $1,362 in 2022, $3,079 in 2021, and $2,333 in 2020. These special patronage distributions are not expected in future years.

Noninterest Expense

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2022**	**2021**	**2020**	**2022/ 2021**	**2021/ 2020**
	(dollars in thousands)				
Salaries and employee benefits	$ 5,114	$ 5,160	$ 4,611	(0.89)%	11.91 %
Occupancy and equipment	231	235	251	(1.70)	(6.37)
Insurance Fund premiums	467	348	185	34.20	88.11
(Gains) losses on OPO	(41)	(50)	4	(18.00)	(1,350.00)
Other operating expenses	1,738	1,643	1,473	5.78	11.54
Total noninterest expense	$ 7,509	$ 7,336	$ 6,524	2.36 %	12.45 %

Salaries and employee benefits decreased by $46 or 0.89 percent in 2022, reflecting a decrease in employee benefits and deferred personnel costs, partially offset by an increase in salaries and incentives. Occupancy and equipment expense decreased by $4 or 1.70 percent, primarily reflecting decreases in depreciation and other cost of space expenses. Insurance fund premiums increased by $119 or 34.20 percent due to higher average notes payable balances and increased premium assessment rates. Gains on OPO decreased by $9 or 18.00 percent. Other operating expenses increased by $95 or 5.78 percent.

Income Taxes

The Association recorded a provision for income taxes of $4 for the year ended December 31, 2022, compared to $0 for 2021 and $0 for 2020.

Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/22	For the 12 Months Ended 12/31/21	For the 12 Months Ended 12/31/20
Return on Average Assets	2.08%	2.56%	2.49%
Return on Average Members' Equity	7.82%	9.25%	8.34%
Net Interest Income as a Percentage of Average Earning Assets	2.92%	2.96%	3.11%
Net (Charge-offs) Recoveries to Average Loans	.062%	.018%	0.134%

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

The return on average assets and return on average members' equity increased for the year ended December 31, 2021 due primarily to the changes in net income described above. Net interest income as a percentage of average earning assets decreased in 2021 due to a decrease in earnings provided by the loanable funds credit. Net recoveries to average loans decreased in 2021 due primarily to net recoveries of $56 in 2021 compared to net recoveries of $383 in 2020.

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

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

The total notes payable to the Bank at December 31, 2022 were $264,071 compared to $230,976 at December 31, 2021 and $213,221 at December 31, 2020. The 2022 increase of $33,095 or 14.33 percent was due primarily to an increase in net loans. The 2021 increase of $17,755 or 8.33 percent was due primarily to an increase in net loans.

The average volume of notes payable to the Bank was $241,467, $223,879 and $198,979 for the years ended December 31, 2022, 2021 and 2020 respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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

The Association had no lines of credit outstanding with third parties as of December 31, 2022.

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, the London Interbank Offered Rate (LIBOR) or the Secured Overnight Financing Rate (SOFR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

The Association's net interest income as a percentage of average earning assets decreased to 2.92 percent for the year ended December 31, 2022 from 2.96 percent for the year ended

December 31, 2021. The decrease is due to a decrease in net interest spread on loans, partially offset by an increase in earnings provided by the loanable funds credit.

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

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

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

CAPITAL RESOURCES

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

The Association's Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2022 that would affect minimum stock purchases or have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity as of December 31, 2022 was $89,129, an increase of $2,662 or 3.08 percent compared to $86,467 at December 31, 2021, which represented an increase of $1,828 or 2.16 percent compared to $84,639 at December 31, 2020. The increases in members' equity for 2022 and 2021 were due to net income retained in excess of distributions to members.

Total capital stock and participation certificates were $1,444 on December 31, 2022, compared to $1,393 on December 31, 2021 and $1,274 on December 31, 2020. The changes are reflective of the stock and participation certificate requirements as existing loans are repaid and new loans are made.

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

Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio remains in effect.

The following sets forth the regulatory capital ratios and the Association's capital ratios as of December 31, 2022, 2021 and 2020:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2022	2021	2020
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	2.5%	7.0%	23.72%	25.69%	27.22%
Tier 1 Capital Ratio	6.0%	2.5%	8.5%	23.72%	25.69%	27.22%
Total Capital Ratio	8.0%	2.5%	10.5%	24.97%	26.95%	28.47%
Permanent Capital Ratio	7.0%	0.0%	7.0%	24.02%	26.02%	27.56%
Non-risk-adjusted:						
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	24.49%	26.51%	28.38%
UREE Leverage Ratio	1.5%	0.0%	1.5%	24.08%	26.21%	28.21%

** The capital conservation buffers were phased in over a 3-year period and became fully effective January 1, 2020, with the exception of the tier 1 leverage ratio, which became fully effective January 1, 2017.*

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

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

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a patronage allocation program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After consideration of these capital needs, net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning patronage distributions. The Association declared patronage distributions of $4.0 million in 2022. Patronage distributions of $6.37 million were declared in 2021 and $5.85 million in 2020.

YOUNG, BEGINNING AND SMALL FARMER AND RANCHER PROGRAM

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

Definitions

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

YBS Program Strategies

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

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

In 2022, the Association continued to place emphasis on involvement in agricultural events and affiliations in our chartered territory with a tie to Young, Beginning and Small farmers and ranchers. The Association actively participated in agricultural events through sponsorships and virtual speaking engagements. The Association worked both independently and in cooperation with agriculturally focused affiliates and educational systems in the territory. Association members can expect this level of participation to continue throughout 2023.

In complementary initiatives, the YBS Advisory Committee continued to provide input to the Association's Board of Directors regarding future YBS policy development and program planning. The YBS Advisory Committee will continue meeting in 2023.

2023 strategies for meeting program objectives include:

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

YBS Program Quantitative Goals

In 2022, the Association continued to market and originate loans to YBS farmers and ranchers. The Association increased the number of loans in all YBS categories in 2022. Loan volume increased in all YBS categories over the prior year-end. For 2023, the Association projects a slight decrease in the number of Young farmer loans, with an increase in Young farmer loan volume. The Association projects an increase in loan number and loan volume for Beginning and Small farmers.

The following charts show by YBS category:

- Changes in number and volume of YBS loans during 2022
- Number and volume of YBS loans as of December 31, 2022
- 2023 quantitative YBS goals

Changes in YBS Categories during 2022:

	Increase/(Decrease) # Loans	Increase/(Decrease) Loan Volume
		(dollars in thousands)
Young	14	$ 4,607
Beginning	53	$ 25,639
Small	23	$ 33,110

Association Number and Volume of YBS Loans as of December 31, 2022:

	# of YBS Loans	Volume YBS Loans
		(dollars in thousands)
Young	261	$ 31,764
Beginning	859	$ 142,780
Small	1,233	$ 172,619

2023 Quantitative Goals for YBS:

	# of YBS Loans	Volume YBS Loans
		(dollars in thousands)
Young	259	$ 34,442
Beginning	936	$ 148,047
Small	1,271	$ 178,301

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

Association Comparison to YBS Territorial Demographics

Association Market Share as of December 31, 2022:

	2017 Ag Census	Association Loans "In Territory"	Market Share Percentage
Young	676	252	37.28%
Beginning	2,664	841	31.57%
Small	7,620	1,154	15.14%

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

YBS Program Summary

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

REGULATORY MATTERS

On 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 will replace the incurred loss methodology upon adoption. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be 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 would not be eligible for inclusion in a System institution's Tier 2 capital. The regulation does 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 does not include an exclusion for the CECL day 1 cumulative effect adjustment from the "safe harbor" deemed prior approval provision. The rule became effective on January 1, 2023.

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

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.

LIBOR TRANSITION

In 2017, the United Kingdom's Financial Conduct Authority (UK FCA), which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it was uncertain whether LIBOR would continue to be quoted after 2021.

On March 5, 2021, ICE Benchmark Administration (IBA) (the entity that is responsible for calculating LIBOR) announced its intention to cease the publication of the one-week and two-month US dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining

US dollar LIBOR settings immediately following the LIBOR publication on June 30, 2023. On the same day, the UK FCA announced that the IBA had notified the UK FCA of its intent, among other things, to cease providing certain US dollar LIBOR settings as of June 30, 2023. In its announcement, the UK FCA confirmed that all 35 LIBOR tenors (including with respect to US dollar LIBOR) will be discontinued or declared nonrepresentative as of either: (a) immediately after December 31, 2021 or (b) immediately after June 30, 2023.

The Bank and Associations have exposure to LIBOR arising from loans made to customers, investment securities purchased, and Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

The FCA has issued guidance similar to that of the U.S. prudential regulators but applicable for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure, stop the inflow of new LIBOR volume, and adjust operating processes to implement alternative reference rates.

The Bank and Associations have implemented LIBOR transition plans and continue to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

On December 16, 2022, the Federal Reserve Board adopted a final rule implementing certain provisions of the LIBOR Act ("Regulation ZZ"). Regulation ZZ specifies that on the LIBOR replacement date, which is the first London banking day after June 30, 2023, the Federal Reserve Board-selected benchmark replacement, based on SOFR and including any tenor spread adjustment as provided by Regulation ZZ, will replace references to overnight, one-month, three-month, six-month, and 12-month LIBOR in certain contracts that do not mature before the LIBOR replacement date and that do not contain adequate fallback language. While substantially all contracts, including Systemwide Debt Securities and loans made by District institutions, have adequate fallbacks to replace LIBOR, the LIBOR Act and Regulation ZZ could apply to certain Systemwide Debt Securities and investments, and loans that reference LIBOR and have no or inadequate fallback provisions.

The following is a summary of total Association variable-rate financial instruments outstanding with LIBOR exposure at December 31, 2022:

(dollars in thousands)	Due in 2023 on or Before June 30	Due After June 30, 2023	Total
Loans	$ 1,874	$ 3,265	$ 5,139
Total Assets	$ 1,874	$ 3,265	$ 5,139
Notes Payable to AgFirst Farm Credit Bank	$ 1,388	$ 2,419	$ 3,807
Total Liabilities	$ 1,388	$ 2,419	$ 3,807

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after June 30, 2023, which provides the ability to move these instruments to another index.

MANAGEMENT RETIREMENT

On February 24, 2023, the Association announced the pending retirement of John P. Mottice, Chief Financial Officer, effective March 31, 2023. A new Chief Financial Officer has been hired effective April 1, 2023.

RECENTLY ADOPTED OR ISSUED ACCOUNTING PRONOUNCEMENTS

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

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB):

Summary of Guidance	Adoption and Potential Financial Statement Impact
Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. • Eliminates existing guidance for purchased credit impaired (PCI) loans and requires recognition of an allowance for expected credit losses on these financial assets. • Modifies and enhances financial instruments disclosures. • Eliminates the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• The Association has established a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. • The Association has completed development of PD/LGD model and independently validated the model for conceptual soundness. The implementation of processes, internal controls and policy updates are complete. • The Association macroeconomic forecast includes a weighted selection of the Moody's baseline, upside 10th percentile and downside 90th percentile scenarios. • The guidance has been adopted on January 1, 2023 and did not have a material impact on the Association's consolidated financial statements.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

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

Description of Property

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

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

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

The following represents certain information regarding the executive officers of the Association:

Senior Officers	Position & Other Business Interests
John R. Gregory	*President & Chief Executive Officer* since January 1, 2022. *Head of Financial Restructuring Rural North America* with Rabo AgriFinance from June 2018 thru October 2021. *Senior Financial Restructuring Manager* with Rabo AgriFinance from May 2017 thru May 2018. *Special Assets Manager and Capital Markets Officer* with the Association from April 2008 thru April 2017. Mr. Gregory is a licensed attorney in the State of Florida.
John P. Mottice	*Chief Financial Officer* since April 2014. *Capital Markets Officer* from April 2011 thru March 2014.
Chuck Thiele	*Chief Credit Officer* since March 2013. *Credit Administrator* from January 2010 thru February 2013.
DeAndrea Barber	*Chief Operations Officer* since March 2013. *Policy and Operations Manager* from January 2010 thru February 2013. *Loan Operations Manager* from December 2005 thru December 2009.
Dorislynn White-Padgett	*Director of Human Resources* since March 2022. *Manager of Human Capital* from March 2014 thru February 2022. *Senior Human Resource Administrator* from January 2012 thru February 2014. *Regional Loan Operations Supervisor* from June 2007 thru December 2011.
Michael Digmon	*Chief Lending Officer* since March 2022. *Regional Lending Manager (Western Region)* from August 2017 thru February 2022. *Principal Loan Officer* from April 2013 thru July 2017. Mr. Digmon serves on the board of directors of Byrneville Elementary School, a charter school located in Escambia County, Florida.

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

The total amount of compensation earned by the CEO, senior officers and other highly compensated individuals as a group during the years ended December 31, 2022, 2021 and 2020, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value*	Perquisites/ Other**	Total
John Gregory	2022	$ 235,008	$ 35,251	$ –	$ –	$ 5,740	$ 275,999
Ricky Bitner	2021	$ 282,925	$ 42,439	$ 3,028	$ –	$ 6,230	$ 334,622
Ricky Bitner	2020	$ 271,510	$ 40,727	$ 1,648	$ –	$ 8,861	$ 322,746
8***	2022	$ 761,161	$ 378,036	$ –	$ (161,506)	$ 25,941	$ 1,003,632
7***	2021	$ 753,467	$ 385,611	$ –	$ 41,531	$ 23,256	$ 1,203,865
7***	2020	$ 732,157	$ 339,955	$ –	$ 168,941	$ 18,808	$ 1,259,861

** Change in Pension Value as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. The discount rate increased in 2022, leading to a decrease in pension values. See further discussion under Retirement and Deferred Compensation Plans below and in Note 9, Employee Benefit Plans, of the Consolidated Financial Statements included in this Annual Report.*
*** Perquisites/Other amounts disclosed in the above table include group life insurance premiums and automobile compensation.*
**** 2022,2021 and 2020 include six senior officers. Highly compensated individuals included in the table above are compensated via salary, commissions, and production incentives. Commissions and production incentives are included in the Bonus column above.*

The disclosure of information on the total compensation paid during 2022 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

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

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

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

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

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

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

Under the General Incentive Plan, the percentage of compensation that could be awarded ranges from 3 percent to 15 percent of the employee’s total compensation during the performance cycle. Senior officers do not specifically earn higher awards under the plan by virtue of their position; however, a senior officer would be expected to have a higher salary grade based upon their increased level of responsibility and accountability for Association performance. For 2022, awards under the General Incentive Plan ranged from 10 percent to 15 percent for the performance cycle (January through December). Payment to employees covered under this plan is made as soon as practicable following the performance cycle.

Under the Agribusiness/Capital Markets Plan, loan officers earn points for developing new business by originating loans to new and existing borrowers, as well as by increasing portfolio growth. There are two performance cycles, January through June and July through December, for measuring new business development. There is one performance cycle, January through December, for measuring portfolio growth. Eligible new loans must satisfy established standards, including meeting regulatory requirements for borrower eligibility, receiving a satisfactory loan review grade to show acceptable credit administration standards, and maintaining an “Acceptable” credit classification during the plan year. Loan officers are awarded points based on their performance against a pre-determined business development quota and growth benchmarks for their individual loan portfolios. Loan officers are eligible to earn incentive awards calculated as a percentage of their salary. There is no cap on the incentive award for developing new business. There is a cap of 6 percent on the incentive award for portfolio growth. For 2022, incentive awards for developing new business development ranged from 0 percent to 118 percent for the first performance cycle and 0 percent to 66 percent for the second performance cycle. For 2022, incentive awards for measuring portfolio growth ranged from 3.5 percent to 6 percent. If a loan officer failed to achieve a certain percentage of their predetermined quota and failed to meet their portfolio growth benchmarks, no points were awarded and that loan officer received no incentive under the plan. The Association's Chief Lending Officer, who is a senior officer, is eligible to participate in the Agribusiness/Capital Markets Plan based upon the cumulative results of loan officers under his direction. Payment to employees covered under this plan is made as soon as practicable following each performance cycle.

Under the MLO Compensation Plan, commissions are calculated at rates ranging from 0.25 percent to 1.00 percent of monthly loans closed. Payment to employees covered under this plan is made monthly. For 2022, commissions paid ranged from 0.25 percent to 1.00 percent. Mortgage loan officers are not eligible under the General Incentive Plan and related components as described above. The CEO and senior officers are not eligible for the MLO Compensation Plan.

During 2022, under the General Incentive Plan, Agribusiness/Capital Markets Plan, and MLO Compensation Plan as described above, the CEO earned $35,251 and senior officers and other highly compensated individuals earned $378,036. Those amounts are presented as a bonus in the table above. Bonuses are shown in the year earned, which may be different from the year of payment.

Senior officers and other Association employees are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking, registration fees and other expenses associated with travel on official business. Some senior officers and other Association employees are assigned an automobile to be utilized in the performance of Association duties. Personal usage of the assigned automobile is allowed. Any personal usage is considered a benefit to the officer or employee and is included as income to the individual in accordance with IRS regulations. Total benefit to senior officers for the personal usage of Association automobiles during 2022 was $25,236.

A copy of the Association's expense and incentive plan policies is available to shareholders upon request. Disclosure of information on the total compensation earned in 2022 by any senior officer, or by any individual included in the total, is available to shareholders upon request.

Pension Benefits Table
As of December 31, 2022

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2022
CEO:					
John Gregory	2022	AgFirst Retirement Plan		$ –	$ –
John Gregory	2022	Supplemental Executive Retirement Plan		–	–
				$ –	$ –
Senior Officers and Highly Compensated Employees:					
8 employees, excluding CEO	2022	AgFirst Retirement Plan	27.75*	$ 831,319	$ –
				$ 831,319	$ –

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

Retirement and Deferred Compensation Plans

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

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

The present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

All employees participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan, which has an employer matching contribution determined by the employee's date of hire. Employees hired prior to

January 1, 2003, receive a maximum employer matching contribution equal to $0.50 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003, receive a maximum employer matching contribution equal to $1.00 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Beginning in 2015, employees hired on or after January 1, 2003, receive an additional employer contribution of 3 percent of eligible compensation.

Participation in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan, is available to certain key employees to defer compensation and restore benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions to be made by the Association. No employees participated in this plan during 2022.

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

Directors

The following chart details the directors serving in 2022, their current term of service and total cash compensation paid:

Name of Director	Current Term	Total Compensation
D. Mark Fletcher, *Chairman, Outside Director, Financial Expert*	2020-2023	$ 21,650
R. Douglas Walker, *Vice Chairman*	2021-2024	10,950
Damon Boutwell	2022-2025	12,650
James R. Dean, *Outside Director*	*Retired*	4,050
Cindy S. Eade	2020-2023	8,750
Ernest C. Fulford	2022-2025	11,200
Jacob Gilmore	2021-2024	6,500
Dana Powell, *Outside Director*	2022-2025	650
Glen Strange	2020-2023	14,350
Richard Terry	2020-2023	12,150
Michael Thompson	2022-2025	11,600
David Yoder	2021-2024	11,650
Total		$ 126,150

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

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

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

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

James R. Dean is an outside director and has over twenty years of experience in the field of Economic and Community Development. He is currently the City Manager of Marianna, Florida. This has been his principal occupation for the past five years. He has served in that position since March of 2008. From July 2006 until March 2008, he was a District Director with the USDA, Rural Development. He is a former employee of Farm Credit of Northwest Florida. Mr. Dean served as the Chairman of the Compensation Committee. He currently serves as a member of the Board of Trustees for Chipola College, as a board member for J Trans, a public transportation authority, and is board vice chairman for Florida Gas Utility, a utility authority. Mr. Dean ended his term of service on the Farm Credit of Northwest Florida Board of Directors in 2022.

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

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

Jacob Gilmore is the Vice President of Finance and Purchasing for Gilmore, a family business that has operated for sixty-five years. The business was founded as a moving and storage company and has expanded to include records storage, document shredding/destruction and imaging services. This has been his principal occupation for the past five years. He is part owner-operator of Gizmo Angus Farm, a 100-head cow/calf herd of registered Angus cattle kept on 450 acres of pasture.

Mr. Gilmore previously served on the state leadership board of EscaRosa Young Farmers and Ranchers Committee and currently serves on the board of the Escambia County 4-H Foundation and is a member of the Escambia County Farm Bureau.

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

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

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

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

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

Subject to approval by the Board, the Association currently may allow directors $500 honoraria for attendance at meetings or special assignments, with the exception of the Chairperson who is allowed $600 honoraria for board meetings. Total compensation paid to directors as a group was $126,150 for 2022. Directors are paid $100 for an Association related telephone conference. The Association's designated financial expert is paid $750 for each board meeting attended. No director received more than $5,000 in non-cash compensation during the year.

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

	Regular Board Meeting	
DIRECTOR	**Days Served**	**Compensation**
D. Mark Fletcher, *Chairman, Outside Director, Financial Expert*	12	$ 6,500
R. Douglas Walker, *Vice Chairman*	12	6,000
Damon Boutwell	12	6,000
James R. Dean, *Outside Director*	7	3,500
Cindy S. Eade	11	6,200
Ernest C. Fulford	12	6,000
Jacob Gilmore	11	5,500
Dana Powell, *Outside Director*	1	500
Glen Strange	11	5,500
Richard Terry	12	6,000
Michael Thompson	12	6,000
David Yoder	11	5,500
Total		$ 63,200

	Other Official Activities	
DIRECTOR	**Days Served**	**Compensation**
D. Mark Fletcher, *Chairman, Outside Director, Financial Expert*	25	$ 15,150
R. Douglas Walker, *Vice Chairman*	20	4,950
Damon Boutwell	27	6,650
James R. Dean, *Outside Director*	4	550
Cindy S. Eade	15	2,550
Ernest C. Fulford	21	5,200
Jacob Gilmore	6	1,000
Dana Powell, *Outside Director*	1	150
Glen Strange	23	8,850
Richard Terry	24	6,150
Michael Thompson	21	5,600
David Yoder	24	6,150
Total		$ 62,950

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

	Loan Committee
DIRECTOR	**Compensation**
R. Douglas Walker, *Chairman*	$ 1,850
Ernest C. Fulford	1,850
Michael Thompson	1,850
Total	$ 5,550

	Compensation Committee
DIRECTOR	**Compensation**
Glen Strange, *Chairman*	$ 850
James R. Dean	550
Cindy S. Eade	300
Jacob Gilmore	1,000
Total	$ 2,700

	Audit Committee
DIRECTOR	**Compensation**
Damon Boutwell, *Chairman*	$ 2,150
Cindy S. Eade	1,500
D. Mark Fletcher, *Financial Expert*	2,150
Dana Powell	150
Richard Terry	2,150
David Yoder	1,900
Total	$ 10,000

Name of Director	Committee Assignments
D. Mark Fletcher, *Chairman, Outside Director, Financial Expert*	Audit, Executive
R. Douglas Walker, *Vice Chairman*	Loan, Executive
Damon Boutwell	Audit, Executive
Cindy S. Eade	Compensation
Ernest Fulford	Loan
Jacob Gilmore	Compensation
Dana Powell, *Outside Director*	Audit
Glen Strange	Compensation, Executive
Richard Terry	Audit
Michael Thompson	Loan
David Yoder	Audit

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

The aggregate amount of reimbursement for travel, subsistence, and other related expenses for all directors as a group was $59,954 for 2022, $10,663 for 2021, and $28,304 for 2020.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

Pursuant to FCA regulation § 621.4 (d), the Association changed its external auditor from PricewaterhouseCoopers LLP (PwC) to Elliott Davis, LLC effective for the 2021 audit year.

The Audit Committee of the Board of Directors made the decision to change qualified public accountants due to proposed substantial increases in audit fees by PwC. There have been no material disagreements with PwC or its previous opinions on the financial statements of the Association. Contact information for PwC is as follows: PricewaterhouseCoopers LLP, 1075 Peachtree Street NE, Suite 2600, Atlanta, Georgia 30309.

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

Aggregate fees incurred by the Association for services rendered by its independent auditors for the year ended December 31, 2022, were as follows:

	2022
Independent Auditors	
Elliott Davis, LLC	
Audit services	$ 50,250
Total	$ 50,250

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

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of Elliott Davis LLC dated March 9, 2023, and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-850-526-4910 or writing John Mottice, Chief Financial Officer, Farm Credit of Northwest Florida, P.O. Box 7000, Marianna, Florida 32447, or accessing the website, ***www.farmcredit-fl.com***.

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

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

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

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

Elliott Davis, LLC (Elliott Davis), the Association's independent auditors for 2022, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with Elliott Davis the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*.

The Committee discussed with Elliott Davis its independence from the Association. The Committee also reviewed the non-audit services provided by Elliott Davis and concluded that these services were not incompatible with maintaining Elliott Davis' 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 2022. The foregoing report is provided by the following independent directors, who constitute the Committee:

Damon A. Boutwell
Chairman of the Audit Committee

Members of Audit Committee

Damon Boutwell
D. Mark Fletcher
Dana Powell
Richard Terry
David Yoder

March 9, 2023

Independent Auditor's Report

Board of Directors and Management
Farm Credit of Northwest Florida, ACA

Opinion

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

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

Basis for Opinion

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

Other Matters

The financial statements of the Association, as of and for the year ended December 31, 2020, were audited by other auditors, whose report, dated March 11, 2021, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in the Annual Report

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

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

Elliott Davis, LLC

Greenville, South Carolina
March 9, 2023

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2022	2021	2020
Assets			
Loans	**$ 354,384**	$ 318,613	$ 299,608
Allowance for loan losses	**(4,980)**	(4,968)	(4,912)
Net loans	**349,404**	313,645	294,696
Loans held for sale	**—**	503	362
Accrued interest receivable	**2,846**	2,386	2,268
Equity investments in other Farm Credit institutions	**4,268**	2,932	3,018
Premises and equipment, net	**1,733**	1,834	1,943
Other property owned	**14**	45	—
Accounts receivable	**2,720**	5,567	4,373
Other assets	**114**	102	91
Total assets	**$ 361,099**	$ 327,014	$ 306,751
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 264,071**	$ 230,976	$ 213,221
Accrued interest payable	**831**	494	471
Patronage refunds payable	**4,039**	6,410	5,932
Accounts payable	**705**	510	322
Advanced conditional payments	**15**	144	—
Other liabilities	**2,309**	2,013	2,166
Total liabilities	**271,970**	240,547	222,112
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**1,444**	1,393	1,274
Retained earnings			
Allocated	**36,420**	36,420	36,420
Unallocated	**51,265**	48,654	46,945
Total members' equity	**89,129**	86,467	84,639
Total liabilities and members' equity	**$ 361,099**	$ 327,014	$ 306,751

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	**For the year ended December 31, 2022**	**2021**	**2020**
Interest Income			
Loans	**$ 16,570**	$ 14,583	$ 14,367
Other	**5**	22	20
Total interest income	**16,575**	14,605	14,387
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**6,858**	5,347	5,505
Other	**23**	1	6
Total interest expense	**6,881**	5,348	5,511
Net interest income	**9,694**	9,257	8,876
Provision for (reversal of) allowance for loan losses	**(192)**	—	—
Net interest income after provision for (reversal of) allowance for loan losses	**9,886**	9,257	8,876
Noninterest Income			
Loan fees	**79**	94	115
Fees for financially related services	**26**	25	—
Patronage refunds from other Farm Credit institutions	**3,983**	5,446	4,321
Gains (losses) on sales of rural home loans, net	**434**	503	333
Gains (losses) on sales of premises and equipment, net	**24**	24	(1)
Gains (losses) on other transactions	**(6)**	22	(21)
Insurance Fund refunds	**—**	—	49
Other noninterest income	**47**	43	48
Total noninterest income	**4,587**	6,157	4,844
Noninterest Expense			
Salaries and employee benefits	**5,114**	5,160	4,611
Occupancy and equipment	**231**	235	251
Insurance Fund premiums	**467**	348	185
Purchased services	**487**	590	543
Data processing	**152**	140	119
Other operating expenses	**1,099**	913	811
(Gains) losses on other property owned, net	**(41)**	(50)	4
Total noninterest expense	**7,509**	7,336	6,524
Income before income taxes	**6,964**	8,078	7,196
Provision for income taxes	**4**	—	—
Net income	**$ 6,960**	$ 8,078	$ 7,196
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 6,960**	$ 8,078	$ 7,196

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

Consolidated Statements of Changes in Members’ Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2019	$ 1,132	$ 37,244	$ 45,599	$ 83,975
Comprehensive income			7,196	7,196
Capital stock/participation certificates issued/(retired), net	142			142
Patronage distribution				
Cash			(5,850)	(5,850)
Retained earnings retired		(824)		(824)
Balance at December 31, 2020	$ 1,274	$ 36,420	$ 46,945	$ 84,639
Comprehensive income			8,078	8,078
Capital stock/participation certificates issued/(retired), net	119			119
Patronage distribution				
Cash			(6,369)	(6,369)
Balance at December 31, 2021	$ 1,393	$ 36,420	$ 48,654	$ 86,467
Comprehensive income			**6,960**	**6,960**
Capital stock/participation certificates issued/(retired), net	**51**			**51**
Patronage distribution				
Cash			**(4,000)**	**(4,000)**
Patronage distribution adjustment			**(349)**	**(349)**
Balance at December 31, 2022	**$ 1,444**	**$ 36,420**	**$ 51,265**	**$ 89,129**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2022	2021	2020
Cash flows from operating activities:			
Net income	**$ 6,960**	$ 8,078	$ 7,196
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**166**	169	150
Amortization (accretion) of net deferred loan costs (fees)	**(32)**	(61)	(39)
Provision for (reversal of) allowance for loan losses	**(192)**	—	—
(Gains) losses on other property owned	**(44)**	(55)	(2)
(Gains) losses on sales of premises and equipment, net	**(24)**	(24)	1
(Gains) losses on sales of rural home loans, net	**(434)**	(503)	(333)
(Gains) losses on other transactions	**6**	(22)	21
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(17,181)**	(20,375)	(15,815)
Proceeds from sales of loans held for sale, net	**18,118**	20,737	16,400
(Increase) decrease in accrued interest receivable	**(460)**	(118)	451
(Increase) decrease in accounts receivable	**2,847**	(1,194)	(1,285)
(Increase) decrease in other assets	**(12)**	(11)	24
Increase (decrease) in accrued interest payable	**337**	23	(100)
Increase (decrease) in accounts payable	**195**	188	52
Increase (decrease) in other liabilities	**314**	(128)	377
Total adjustments	**3,604**	(1,374)	(98)
Net cash provided by (used in) operating activities	**10,564**	6,704	7,098
Cash flows from investing activities:			
Net (increase) decrease in loans	**(35,549)**	(19,473)	(15,041)
(Increase) decrease in equity investments in other Farm Credit institutions	**(1,336)**	86	352
Purchases of premises and equipment	**(65)**	(60)	(266)
Proceeds from sales of premises and equipment	**24**	24	—
Proceeds from sales of other property owned	**65**	592	38
Net cash provided by (used in) investing activities	**(36,861)**	(18,831)	(14,917)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**33,095**	17,755	12,942
Net increase (decrease) in advanced conditional payments	**(129)**	144	—
Capital stock and participation certificates issued/(retired), net	**51**	119	142
Patronage refunds and dividends paid	**(6,720)**	(5,891)	(4,441)
Retained earnings retired	**—**	—	(824)
Net cash provided by (used in) financing activities	**26,297**	12,127	7,819
Net increase (decrease) in cash	**—**	—	—
Cash, beginning of period	**—**	—	—
Cash, end of period	**$ —**	$ —	$ —
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ 14**	$ 585	$ 35
Estimated cash dividends or patronage distributions declared or payable	**4,000**	6,369	5,850
Supplemental information:			
Interest paid	**$ 6,544**	$ 5,325	$ 5,610

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of Northwest Florida, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Bay, Calhoun, Escambia, Franklin, Gadsden, Gulf, Holmes, Jackson, Jefferson, Leon, Liberty, Madison, Okaloosa, Santa Rosa, Taylor, Wakulla, Walton, and Washington in the state of Florida.

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

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

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

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

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

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

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

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

B. **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 carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and hedging valuation adjustments, 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.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. 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 remains contractually past due 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. A formal restructuring may also cure a past due status.

Loans are generally classified as nonaccrual when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, payments are applied against the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments received in cash may be recognized as interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified "doubtful" or "loss." Loans are charged off at the time they are determined to be uncollectible.

In cases where the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Association considers the following factors, among others, when determining the allowance for loan losses:

- Changes in credit risk classifications
- Changes in collateral values
- Changes in risk concentrations
- Changes in weather-related conditions
- Changes in economic conditions

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies to reflect estimated probable credit losses inherent in the remainder of the loan portfolio, which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default, adjusted for other relevant factors reflecting the current environment.

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.

C. **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.

D. **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.

E. **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.

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

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

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

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

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

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

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

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

Additional information may be found in Note 9.

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

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

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

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

I. **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.

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

K. **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.

L. **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.

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

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

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

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

N. **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.

O. **Accounting Standards Updates (ASUs):** In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance and amendments issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date through the life of the financial instrument. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU became effective on January 1, 2023. The Association adopted Topic 326 on January 1, 2023. The impact of adopting the new accounting standard was not material to the Association's consolidated financial statements.

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

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

agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31, 2022	December 31, 2021	December 31, 2020
Real estate mortgage	$ 251,739	$ 224,981	$ 217,004
Production and intermediate-term	59,557	61,990	58,073
Loans to cooperatives	1,693	1,594	1,475
Processing and marketing	13,539	8,278	9,078
Farm-related business	5,101	5,446	3,706
Communication	4,411	–	–
Rural residential real estate	16,691	15,280	9,229
International	1,653	1,044	1,043
Total loans	$ 354,384	$ 318,613	$ 299,608

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, 2022	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 13,229	$ 58,752	$ –	$ 5,276	$ –	$ –	$ 13,229	$ 64,028
Production and intermediate-term	6,005	14,915	11	421	–	–	6,016	15,336
Loans to cooperatives	1,695	–	–	–	–	–	1,695	–
Processing and marketing	13,399	–	–	–	–	–	13,399	–
Farm-related business	264	–	–	–	–	–	264	–
Communication	4,425	–	–	–	–	–	4,425	–
International	1,656	–	–	–	–	–	1,656	–
Total	$ 40,673	$ 73,667	$ 11	$ 5,697	$ –	$ –	$ 40,684	$ 79,364

December 31, 2021	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 16,195	$ 54,913	$ –	$ 5,276	$ 143	$ –	$ 16,338	$ 60,189
Production and intermediate-term	4,884	12,659	12	421	–	–	4,896	13,080
Loans to cooperatives	1,597	–	–	–	–	–	1,597	–
Processing and marketing	8,097	–	–	–	–	–	8,097	–
Farm-related business	264	–	–	–	–	–	264	–
International	1,045	–	–	–	–	–	1,045	–
Total	$ 32,082	$ 67,572	$ 12	$ 5,697	$ 143	$ –	$ 32,237	$ 73,269

	December 31, 2020							
	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	$ 17,791	$ 61,596	$ –	$ 343	$ 192	$ –	$ 17,983	$ 61,939
Production and intermediate-term	3,146	10,238	–	–	–	–	3,146	10,238
Loans to cooperatives	1,478	–	–	–	–	–	1,478	–
Processing and marketing	8,951	–	–	–	–	–	8,951	–
Farm-related business	264	–	–	–	–	–	264	–
International	1,045	–	–	–	–	–	1,045	–
Total	$ 32,675	$ 71,834	$ –	$ 343	$ 192	$ –	$ 32,867	$ 72,177

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs, and may also reflect a previous direct write-down of the investment.

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	December 31, 2022	2021	2020
Real estate mortgage:			
Acceptable	97.50%	95.58%	96.58%
OAEM	0.12	1.51	2.16
Substandard/doubtful/loss	2.38	2.91	1.26
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	98.22%	97.47%	97.28%
OAEM	0.47	0.94	1.07
Substandard/doubtful/loss	1.31	1.59	1.65
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	100.00%	70.69%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	29.31
	100.00%	100.00%	100.00%

	December 31, 2022	2021	2020
Communication:			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Rural residential real estate:			
Acceptable	99.41%	99.56%	99.09%
OAEM	–	–	0.05
Substandard/doubtful/loss	0.59	0.44	0.86
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	97.89%	96.37%	96.60%
OAEM	0.17	1.25	1.78
Substandard/doubtful/loss	1.94	2.38	1.62
	100.00%	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest as of:

	December 31, 2022				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 875	$ –	$ 875	$ 252,843	$ 253,718
Production and intermediate-term	78	1	79	60,205	60,284
Loans to cooperatives	–	–	–	1,698	1,698
Processing and marketing	–	–	–	13,587	13,587
Farm-related business	–	–	–	5,122	5,122
Communication	–	–	–	4,417	4,417
Rural residential real estate	102	20	122	16,613	16,735
International	–	–	–	1,669	1,669
Total	$ 1,055	$ 21	$ 1,076	$ 356,154	$ 357,230

	December 31, 2021				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 189	$ 143	$ 332	$ 226,461	$ 226,793
Production and intermediate-term	114	1	115	62,390	62,505
Loans to cooperatives	–	–	–	1,595	1,595
Processing and marketing	–	–	–	8,295	8,295
Farm-related business	–	–	–	5,461	5,461
Rural residential real estate	–	–	–	15,305	15,305
International	–	–	–	1,045	1,045
Total	$ 303	$ 144	$ 447	$ 320,552	$ 320,999

	December 31, 2020				
	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	$ –	$ 347	$ 347	$ 218,428	$ 218,775
Production and intermediate-term	65	236	301	58,214	58,515
Loans to cooperatives	–	–	–	1,476	1,476
Processing and marketing	–	–	–	9,096	9,096
Farm-related business	–	–	–	3,723	3,723
Rural residential real estate	–	–	–	9,247	9,247
International	–	–	–	1,044	1,044
Total	$ 65	$ 583	$ 648	$ 301,228	$ 301,876

Nonperforming assets (including related accrued interest) and related credit quality statistics were as follows:

	December 31,		
	2022	2021	2020
Nonaccrual loans:			
Real estate mortgage	$ 53	$ 329	$ 509
Production and intermediate-term	130	94	722
Rural residential real estate	20	28	35
Total	$ 203	$ 451	$ 1,266
Accruing restructured loans:			
Real estate mortgage	$ 937	$ 1,530	$ 1,583
Production and intermediate-term	141	123	130
Total	$ 1,078	$ 1,653	$ 1,713
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 1,281	$ 2,104	$ 2,979
Other property owned	14	45	–
Total nonperforming assets	$ 1,295	$ 2,149	$ 2,979
Nonaccrual loans as a percentage of total loans	0.06%	0.14%	0.42%
Nonperforming assets as a percentage of total loans and other property owned	0.37%	0.67%	0.99%
Nonperforming assets as a percentage of capital	1.45%	2.49%	3.52%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

	December 31,		
	2022	2021	2020
Impaired nonaccrual loans:			
Current as to principal and interest	$ 182	$ 244	$ 675
Past due	21	207	591
Total	$ 203	$ 451	$ 1,266
Impaired accrual loans:			
Restructured	$ 1,078	$ 1,653	$ 1,713
90 days or more past due	–	–	–
Total	$ 1,078	$ 1,653	$ 1,713
Total impaired loans	$ 1,281	$ 2,104	$ 2,979
Additional commitments to lend	$ –	$ –	$ –

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	December 31, 2022			Year Ended December 31, 2022	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Production and intermediate-term	$ 25	$ 25	$ 5	$ 34	$ 4
Total	$ 25	$ 25	$ 5	$ 34	$ 4
With no related allowance for credit losses:					
Real estate mortgage	$ 990	$ 1,007	$ –	$ 1,344	$ 154
Production and intermediate-term	246	283	–	334	38
Rural residential real estate	20	68	–	27	3
Total	$ 1,256	$ 1,358	$ –	$ 1,705	$ 195
Total impaired loans:					
Real estate mortgage	$ 990	$ 1,007	$ –	$ 1,344	$ 154
Production and intermediate-term	271	308	5	368	42
Rural residential real estate	20	68	–	27	3
Total	$ 1,281	$ 1,383	$ 5	$ 1,739	$ 199

	December 31, 2021			Year Ended December 31, 2021	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 143	$ 193	$ 11	$ 182	$ 14
Production and intermediate-term	24	30	6	31	3
Total	$ 167	$ 223	$ 17	$ 213	$ 17
With no related allowance for credit losses:					
Real estate mortgage	$ 1,716	$ 1,781	$ –	$ 2,186	$ 170
Production and intermediate-term	193	230	–	246	19
Rural residential real estate	28	70	–	36	3
Total	$ 1,937	$ 2,081	$ –	$ 2,468	$ 192
Total impaired loans:					
Real estate mortgage	$ 1,859	$ 1,974	$ 11	$ 2,368	$ 184
Production and intermediate-term	217	260	6	277	22
Rural residential real estate	28	70	–	36	3
Total	$ 2,104	$ 2,304	$ 17	$ 2,681	$ 209

	December 31, 2020			Year Ended December 31, 2020	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 264	$ 263	$ 83	$ 288	$ 21
Production and intermediate-term	369	381	80	404	30
Total	$ 633	$ 644	$ 163	$ 692	$ 51
With no related allowance for credit losses:					
Real estate mortgage	$ 1,828	$ 1,878	$ –	$ 2,000	$ 147
Production and intermediate-term	483	657	–	528	38
Rural residential real estate	35	72	–	38	3
Total	$ 2,346	$ 2,607	$ –	$ 2,566	$ 188
Total impaired loans:					
Real estate mortgage	$ 2,092	$ 2,141	$ 83	$ 2,288	$ 168
Production and intermediate-term	852	1,038	80	932	68
Rural residential real estate	35	72	–	38	3
Total	$ 2,979	$ 3,251	$ 163	$ 3,258	$ 239

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2021	$ 3,504	$ 971	$ 239	$ –	$ –	$ 238	$ 16	$ 4,968
Charge-offs	(143)	(7)	–	–	–	–	–	(150)
Recoveries	250	103	1	–	–	–	–	354
Provision for loan losses	(75)	(227)	45	62	–	(4)	7	(192)
Balance at December 31, 2022	$ 3,536	$ 840	$ 285	$ 62	$ –	$ 234	$ 23	$ 4,980
Balance at December 31, 2020	$ 3,561	$ 948	$ 235	$ –	$ –	$ 151	$ 17	$ 4,912
Charge-offs	(50)	(175)	–	–	–	–	–	(225)
Recoveries	254	26	1	–	–	–	–	281
Provision for loan losses	(261)	172	3	–	–	87	(1)	–
Balance at December 31, 2021	$ 3,504	$ 971	$ 239	$ –	$ –	$ 238	$ 16	$ 4,968
Balance at December 31, 2019	$ 3,204	$ 983	$ 192	$ 21	$ 19	$ 93	$ 17	$ 4,529
Charge-offs	(1)	(30)	–	–	–	–	–	(31)
Recoveries	138	169	11	–	–	96	–	414
Provision for loan losses	149	(103)	32	(21)	(19)	(38)	–	–
Loan type reclassification	71	(71)	–	–	–	–	–	–
Balance at December 31, 2020	$ 3,561	$ 948	$ 235	$ –	$ –	$ 151	$ 17	$ 4,912
Allowance on loans evaluated for impairment:								
Individually	$ –	$ 5	$ –	$ –	$ –	$ –	$ –	$ 5
Collectively	3,536	835	285	62	–	234	23	4,975
Balance at December 31, 2022	$ 3,536	$ 840	$ 285	$ 62	$ –	$ 234	$ 23	$ 4,980
Individually	$ 11	$ 6	$ –	$ –	$ –	$ –	$ –	$ 17
Collectively	3,493	965	239	–	–	238	16	4,951
Balance at December 31, 2021	$ 3,504	$ 971	$ 239	$ –	$ –	$ 238	$ 16	$ 4,968
Individually	$ 83	$ 80	$ –	$ –	$ –	$ –	$ –	$ 163
Collectively	3,478	868	235	–	–	151	17	4,749
Balance at December 31, 2020	$ 3,561	$ 948	$ 235	$ –	$ –	$ 151	$ 17	$ 4,912
Recorded investment in loans evaluated for impairment:								
Individually	$ 990	$ 271	$ –	$ –	$ –	$ 20	$ –	$ 1,281
Collectively	252,728	60,013	20,407	4,417	–	16,715	1,669	355,949
Balance at December 31, 2022	$ 253,718	$ 60,284	$ 20,407	$ 4,417	$ –	$ 16,735	$ 1,669	$ 357,230
Individually	$ 1,859	$ 217	$ –	$ –	$ –	$ 28	$ –	$ 2,104
Collectively	224,934	62,288	15,351	–	–	15,277	1,045	318,895
Balance at December 31, 2021	$ 226,793	$ 62,505	$ 15,351	$ –	$ –	$ 15,305	$ 1,045	$ 320,999
Individually	$ 2,092	$ 852	$ –	$ –	$ –	$ 35	$ –	$ 2,979
Collectively	216,683	57,663	14,295	–	–	9,212	1,044	298,897
Balance at December 31, 2020	$ 218,775	$ 58,515	$ 14,295	$ –	$ –	$ 9,247	$ 1,044	$ 301,876

**Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*

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 $9,985, $7,920, and $8,200 at December 31, 2022, 2021, and 2020, respectively. Fees paid for such guarantee commitments totaled less than $1 for each of the periods presented. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following table presents additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the period presented. There were no new TDRs that occurred during the years ended December 31, 2022 and December 31, 2020; therefore, no tables are presented for those periods.

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

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

The following table presents the outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Year Ended December 31,		
	2022	**2021**	**2020**
Defaulted troubled debt restructurings:			
Real estate mortgage	$ –	$ 198	$ –
Total	$ –	$ 198	$ –

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**	**2020**	**2022**	**2021**	**2020**
Real estate mortgage	$ 990	$ 1,593	$ 1,583	$ 53	$ 63	$ –
Production and intermediate-term	153	173	534	12	50	404
Total loans	$ 1,143	$ 1,766	$ 2,117	$ 65	$ 113	$ 404
Additional commitments to lend	$ –	$ –	$ –			

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as required by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $3,707 for 2022, $2,371 for 2021 and $2,459 for 2020. The Association owned 0.97 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2022, net of any reciprocal investment. As of that date, the Bank's assets totaled $42.1 billion and shareholders' equity totaled $1.5 billion. The Bank's earnings were $412 million for 2022. In addition, the Association had investments of $561 related to other Farm Credit Institutions at December 31, 2022.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2022	**2021**	**2020**
Land	$ 559	$ 559	$ 559
Buildings and improvements	2,820	2,815	2,791
Furniture and equipment	1,501	1,570	1,605
	4,880	4,944	4,955
Less: accumulated depreciation	3,147	3,110	3,012
Total	$ 1,733	$ 1,834	$ 1,943

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, 2022, the Association's notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 5.12 percent for LIBOR-based loans, 5.04 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 5.23 percent for Prime-based loans, and the weighted average remaining maturities were 1.5 years, 5.4 years, and 3.6 years, respectively, at December 31, 2022. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.12 percent, and the weighted average remaining maturity was 12.7 years at December 31, 2022. The weighted average interest rate on all interest-bearing notes payable was 3.44 percent and the weighted average remaining maturity was 11.3 years at December 31, 2022. Variable rate and fixed rate notes payable represent approximately -13.54 percent and 113.54 percent, respectively, of total notes payable at December 31, 2022. The variable rate percentage was negative due to variable rate credits that exceeded variable rate borrowings. Even though loans to borrowers are match funded by the notes payable to the Bank, they are not funded dollar for dollar. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds" and is recorded on the Association's general ledger as a debit, offsetting the notes payable to the Bank. At December 31, 2022, this resulted in a net variable rate notes payable debit and the -13.54 percent measure.

The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

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

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

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

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

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

   The capital regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based ratios. The regulations also include a tier 1 leverage ratio which includes an unallocated retained earnings (URE) and URE equivalents (UREE) component. The permanent capital ratio (PCR) remains in effect.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

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

The following sets forth the regulatory capital ratios and the Association's capital ratios as of December 31, 2022, 2021 and 2020:

Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement including Capital Conservation Buffer	Capital Ratios as of December 31, 2022	2021	2020
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	23.72%	25.69%	27.22%
Tier 1 Capital	6.0%	2.5%	8.5%	23.72%	25.69%	27.22%
Total Capital	8.0%	2.5%	10.5%	24.97%	26.95%	28.47%
Permanent Capital	7.0%	0.0%	7.0%	24.02%	26.02%	27.56%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	24.49%	26.51%	28.38%
URE and UREE Leverage	1.5%	0.0%	1.5%	24.08%	26.21%	28.21%

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

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

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

The Association had the following shares outstanding at December 31, 2022:

Class	Protected	Shares Outstanding Number	Aggregate Par Value
C Common/Voting	No	244,933	$ 1,225
C Participation Certificates/Nonvoting	No	43,792	219
Total Capital Stock and Participation Certificates		288,725	$ 1,444

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

Retained Earnings

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

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

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

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met.

At December 31, 2022, allocated members' equity consisted of $36,420 of nonqualified retained surplus.

Dividends

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

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

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

Patronage Distributions

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

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

Transfer

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

Impairment

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

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

Liquidation

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

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

Note 8 — Fair Value Measurement

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

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

	December 31, 2022			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 10	$ –	$ –	$ 10
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 20	$ 20
Other property owned	$ –	$ –	$ 16	$ 16

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

	December 31, 2020			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 5	$ –	$ –	$ 5
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 470	$ 470
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 $158 for 2022, $369 for 2021, and $283 for 2020. At December 31, 2022, 2021, and 2020, the total liability balance for the FAP Plan was $32,568, $39,135, and $114,449, respectively. The FAP Plan was 95.81 percent, 96.17 percent, and 89.63 percent funded to the projected benefit obligation as of December 31, 2022, 2021, and 2020, 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 $103 for 2022, $107 for 2021, and $100 for 2020. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $167,895, $209,599, and $219,990 at December 31, 2022, 2021, and 2020, 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 $301, $315, and $278 for the years ended December 31, 2022, 2021, and 2020, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

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

In addition to the multiemployer plans described above, the Association sponsors a nonqualified supplemental 401(k) plan. Expenses of this nonqualified plan included in noninterest expenses were $0, $3, and $2 for 2022, 2021, and 2020, respectively.

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2022 amounted to $8,058. During 2022, $2,430 of new loans and advances were made and repayments totaled $1,820. In the opinion of management, none of these loans outstanding at December 31, 2022 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, 2022, $40,646 of commitments to extend credit and no commercial letters of credit were outstanding with a related reserve for unfunded commitments of $35 which is included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2022, standby letters of credit outstanding totaled $98 with expiration dates ranging from January 3, 2023 to December 14, 2024. The maximum potential amount of future payments that may be required under these guarantees was $98.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2022	2021	2020
Current:			
Federal	$ 3	$ –	$ –
State	1	–	–
	4	–	–
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ 4	$ –	$ –

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

	December 31,		
	2022	2021	2020
Federal tax at statutory rate	$ 1,462	$ 1,696	$ 1,511
State tax, net	–	–	–
Patronage distributions	(840)	(1,338)	(1,402)
Tax-exempt FLCA earnings	(531)	(303)	(104)
Change in valuation allowance	(110)	(31)	(6)
Deferred tax rate change	–	–	–
Other	23	(24)	1
Provision (benefit) for income taxes	$ 4	$ –	$ –

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

	December 31,		
	2022	2021	2020
Deferred income tax assets:			
Allowance for loan losses	$ 209	$ 249	$ 251
Net operating loss – carryforward	584	591	580
Loan origination fees	–	–	–
Nonaccrual loan interest	19	20	65
Valuation allowance on other property owned	–	–	–
Gross deferred tax assets	812	860	896
Less: valuation allowance	(703)	(813)	(844)
Gross deferred tax assets, net of valuation allowance	109	47	52
Deferred income tax liabilities:	(109)	(47)	(52)
Gross deferred tax liability	–	–	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2022, deferred income taxes have not been provided by the Association on approximately $56 of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $703, $813 and $844 as of December 31, 2022, 2021 and 2020, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2022 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 2019 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

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

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

2020	First	Second	Third	Fourth	Total
Net interest income	$ 2,203	$ 2,257	$ 2,192	$ 2,224	$ 8,876
Provision for (reversal of) allowance for loan losses	–	–	–	–	–
Noninterest income (expense), net	(937)	(986)	(1,119)	1,362	(1,680)
Net income	$ 1,266	$ 1,271	$ 1,073	$ 3,586	$ 7,196

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 9, 2023, which was the date the financial statements were issued.

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