2022
ANNUAL REPORT
AgSouth
Farm Credit

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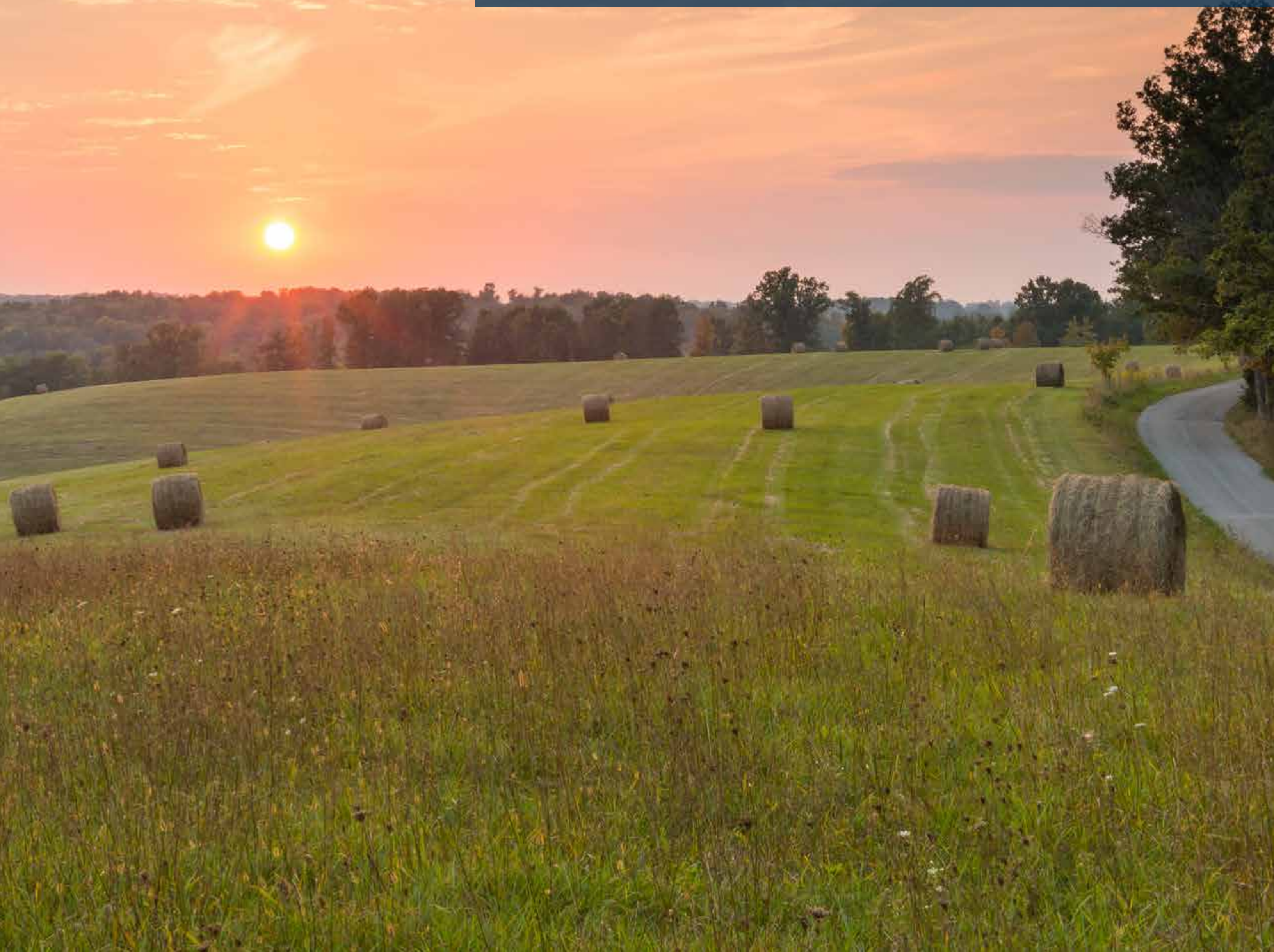


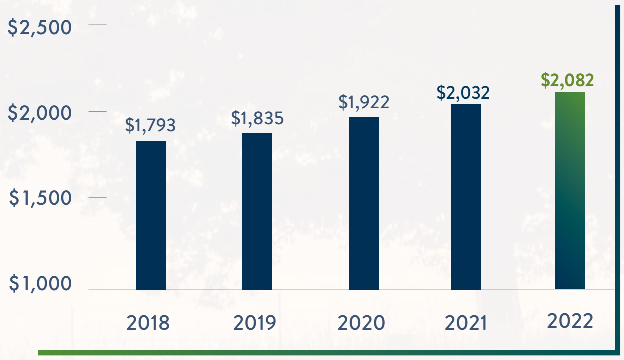
MESSAGE FROM YOUR CEO

PAT CALHOUN
Chief Executive Officer

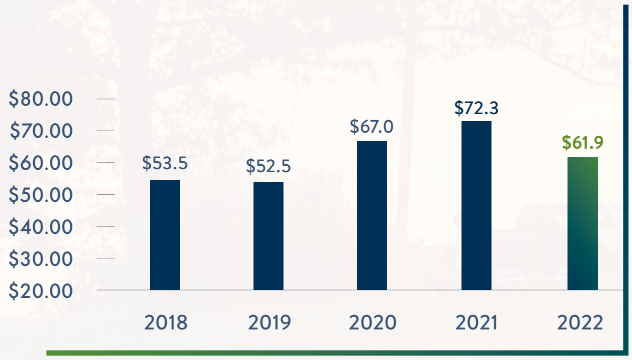
On behalf of your Board of Directors, Management, and staff I am pleased to present the 2022 Annual Report of AgSouth Farm Credit, ACA. 2022 was a year of strong performance by your cooperative. This Annual Report will outline the major accomplishments of your Association and give additional insight into its operations. Doing business ***The Cooperative Way*** continues to benefit you, our member-borrowers. Thanks for your contribution to AgSouth's success.

Despite increasing rates and inflation pressures, net loan volume grew by nearly 3%, ending 2022 in excess of $2.1 billion dollars, an increase of approximately $54 million dollars from 2021. Net income wrapped up at nearly $62 million dollars and member equity in the cooperative was approximately $458 million, more than 2.5% growth from the prior year. Core earnings continued to be strong and were supported by our Financially Related Services department's delivery of Crop Insurance, Leasing, and Residential Mortgages to our members and customers. While down from the prior year as anticipated, AgSouth received a special distribution of earnings from AgFirst Farm Credit Bank to support overall income as well. Our earnings should return to levels that are more typical in the coming years as the special patronage program reaches its expected conclusion.

LOANS OUTSTANDING
IN MILLIONS



NET INCOME
IN MILLIONS



Patronage distributions are at the core of AgSouth's cooperative structure. 2022's strong performance has allowed your Board to designate approximately $33 million of 2022's earnings for this core, important cooperative purpose. The Board intends to distribute this $33 million in an all cash distribution in early 2023. The Board also intends to return the 2017 Surplus Allocation of approximately $23 million in cash as well. As you can see, these distributions, expected to be nearly $56 million in cash demonstrate that it continues to pay to do business with AgSouth where we **"put our profits in your pockets!"**

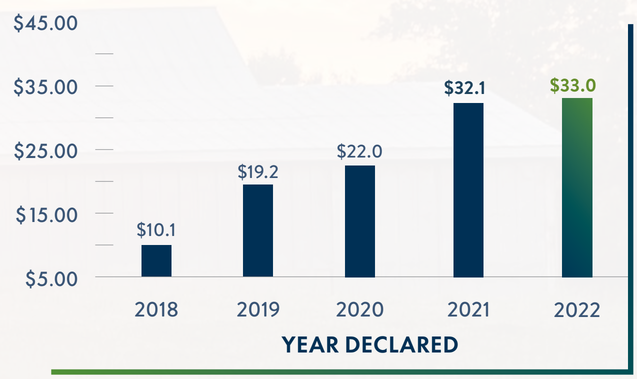
Our Annual Report also contains helpful sections about our Board of Directors and Executive Leadership, articles on products and services, and a description of how AgSouth supports the future of agriculture. We are hopeful you find these to be useful.

AgSouth is strong moving into 2023. Our excellent staff, financial reserves, and customer base make me confident that we will be well postured to serve our customers, our cooperative, and the communities where we live and do business. YOU, our member-borrowers, are key to that future success. Please keep AgSouth top of mind for your next financial project or goal. Whether it is a farm loan, a line of credit, a residential mortgage, crop insurance, or a lease, we have the expertise, the capacity, and the desire to help you realize your goals. I thank you for your business in 2022 and wish for you a prosperous and successful 2023.

Pat Calhoun
Chief Executive Officer

TOTAL MEMBERS' EQUITY
IN MILLIONS

TOTAL CASH PATRONAGE
IN MILLIONS*



* Does not include revolved allocated surplus.

YOUR LEADERSHIP TEAM

AgSouth Farm Credit is led by your Board of Directors and Executive Management with decades of shared financial and agricultural experience. Our Board of Directors are vested in the success of the organization not only because they are leaders, but because they are member-borrowers themselves. You can count on AgSouth's leaders to make sound decisions for the future of our organization and for the next generation of farmers and rural residents.

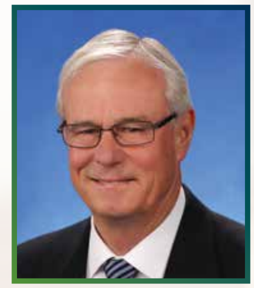
2022 BOARD OF DIRECTORS

H. Frank Ables, Jr.
Chairman
Elected to Board in 2015
7 years of service

Sean F. Lennon
Vice Chairman
Elected to Board in 2017
5 years of service

Arthur Q. Black
Elected to Board in 1995
27 years of service

David V. Cantley
Elected to Board in 2020
3 years of service



Lee H. DeLoach
Elected to Board in 2002
20 years of service

Tara H. Green
Elected to Board in 2022
1 year of service

Wesley C. Ham
Appointed to Board in 2022
1 year of service

Phillip E. Love, Jr.
Appointed to Board in 2014
8 years of service

Jonathan L. Mann
Elected to Board 2021
2 years of service

J. Jay Peay
Elected to Board in 2015
7 years of service

William T. Robinson
Elected to Board in 2011
11 years of service

Pete Wall
Elected to Board in 2021
2 years of service

Hugh E. Weathers
Elected to Board in 1998
24 years of service

David H. Womack
Appointed to Board in 1991
30 years of service

BOARD SUGGESTIONS

Your voice matters! Your Board wants to hear your thoughts, concerns and suggestions for your Association. Use the QR code or visit https://www.agsouthfc.com/about/directors to fill out our Board Suggestions form.

EXECUTIVE MANAGEMENT

Pat Calhoun
Chief Executive Officer
34 years of service

Stacy Anderson
Chief Credit Officer
19 years of service

Jennifer Davis
Chief Administrative and Technology Officer
29 years of service

Bo Fennell
Chief Financial Officer
5 years of service

Sharmequa Franklin
Chief Human Resources Officer
21 years of service

Nick Martin
Chief Lending Officer
12 years of service

Bob Mikell
General Counsel
4 years of service

Debbie Sikes
Chief Compliance and Risk Officer
21 years of service

Christian Taylor
Director of Secondary Market and Financially Related Services
17 years of service

AGSOUTH BELIEVES IN THE FUTURE OF AGRICULTURE

It's hard being a young, beginning, or small farmer. Oftentimes, these groups look to their community for resources that can help them achieve their dreams and improve their operations. The future of agriculture is important to AgSouth. It is our mission to help strengthen these resources so they can continue to support the next generation of farmers.

We support the following programs at local, regional, and state levels through financial support, marketing and promotions, attendance, and participation in farm finance topics.

AGAware®

AgSouth offers the farm finance training AGAware annually to teach basic farm finance concepts critical to running a farm as a business. The one-day, in-person workshop covers Balance Sheets, Income Statements, Family Budgeting, Risk Management, Applying for Financing and Preparing a Business Plan. AGAware is also certified for attendees to receive FSA Direct borrower Training Credits. The training is open to anyone who wishes to develop a better understanding of how to run a successful farming operation of any type and size.

FFA

FFA is a student organization for those interested in agriculture and leadership and is part of agricultural education in both Georgia and South Carolina. FFA offers students opportunities both in and outside the classroom through competitions, events, and other hands-on experiences. AgSouth is proud to sponsor several FFA competitions, events and fundraising efforts on the local and statewide level in conjunction with the Farm Credit Associations of Georgia and Farm Credit Associations of South Carolina. AgSouth also has a seat on the Georgia FFA Foundation Board. We are proud to support these impressive future farm leaders.

4-H

4-H is America's largest youth development organization. 4-H is delivered nationwide by Cooperative Extension agents, focusing programs on STEM and agriculture, healthy living, and civic engagement. AgSouth supports 4-H programs in Georgia and South Carolina along with the Farm Credit Associations of Georgia and Farm Credit Associations of South Carolina through sponsoring youth to attend camps, events, and competitions. AgSouth also proudly supports their fundraising events throughout the year to raise additional funds to keep these programs going.

Farm Bureau Young Farmer and Rancher Program

The Farm Bureau Young Farmer programs in Georgia and South Carolina provide leadership, educational, and social opportunities for the next generation of farmers and agricultural leaders. The program is part of the larger state Farm Bureau Federations which works to inform lawmakers of the impact of policies, train young farmers to advocate for agriculture, and educates teachers and students about agriculture. AgSouth, along with the Farm Credit Associations of Georgia and Farm Credit Associations of South Carolina, support the statewide leadership conferences and local county groups through sponsorships, speaking at events, judging competitions, and attending events. It is encouraging to see the commitment of young farmers who are so passionate about advocating for agriculture.

Young Farmer Associations

The Georgia Young Farmer Association and South Carolina Farmer and Agribusiness Association are the adult education components of the state Agricultural Education programs. County Young Farmer Programs conduct educational seminars on everything from agricultural technology to legislative issues affecting agriculture. Providing on-site technical assistance is a strong part of the program. AgSouth, along with the Farm Credit Associations of Georgia and Farm Credit Associations of South Carolina, support the statewide leadership conferences and local county groups through sponsorships, speaking at events, judging competitions, and attending events.

Annie's Project

Annie's Project is a volunteer-led workshop series that provides educational programs that are designed to strengthen women's roles in farming operations. Topics covered in the sessions can include farm financial management, human resources, legal planning, marketing of products, and production-related training. AgSouth serves on the National Advisory Committee, sponsors the South Carolina Annie's Project workshop series, and presents on finance related topics to the participants.

Internship Program

At AgSouth, interns are a valuable source of the Association's future talent. To support this, our internship program helps student interns advance in their chosen fields. Interns are provided opportunities to learn multiple facets of the Association, while also challenging them to achieve results, expand their knowledge, and grow as individuals.

South Carolina New Beginning Farmer Program (SCNBFP)

The SCNBFP is a workshop series offered through Clemson Extension that focuses on enabling new and beginning farmers to be successful, productive, and innovative members of their local agricultural community. Workshops providing attendees with the tools, knowledge and skills necessary to be successful entrepreneurs; sound business managers; exemplary stewards of SWAPA (soil, water, air, plants, and animals), and successful marketers of the unique products they create; and, perhaps most importantly, individuals who have a sense of pride and quality of life as a result of their investment and participation in the agricultural community of South Carolina. AgSouth serves on the Advisory Board, presents on farm finance topics during the workshops, and sponsors both the workshop series and the capstone project.

Community Support/ Giving

Across Georgia and South Carolina, AgSouth values its role in the local community and seeks to support events and needs important to our customer base. AgSouth sponsors numerous schools, youth sporting events, numerous other youth programs, community civic programs, events and charity organization fundraisers. Many offices host and participate in food drives, senior needs drives, benefit fundraisers, and more. We are proud to serve our local communities.

These are just a few of the programs AgSouth is proud to support throughout our footprint. It is imperative that all of us in agriculture do our part to sustain its future. We encourage you to plug in and learn more about them to see how you can get involved in supporting the future of agriculture too.

HOW WE CAN HELP YOU LIVE YOUR DREAMS

As one of the largest and most successful agricultural cooperatives in the Southeast, AgSouth Farm Credit is always looking for new ways help you live your dreams by providing loans for the rural lifestyle you want to live. We also provide related services that help contribute to your success, like crop insurance and leasing. Your Board of Directors and Management work together to ensure the success of our cooperative so we can continue to help our rural communities thrive, one dream at a time. We do that by keeping our rates competitive, paying a healthy patronage distribution, revolving allocated surplus on a timely basis, and educating the public and new farmers about agriculture so they can create and live out their own dreams.

Services to Help with Your Success

AgSouth has a variety of products and services to help make living your dream a reality.

MEMBER SERVICES

For more information, please contact your local branch or visit **AgSouthFC.com**

- Digital Banking
- ACH Patronage
- AgSouth Farm Credit Mobile
- AgSweep
- AutoDraft
- Fast Cash
- Member Referral Program

LOANS FOR HOMES

- Home purchases
- Home construction
- Home improvements
- Refinances

LOANS FOR AGRICULTURE

- Equipment
- Farm improvements
- Operating expenses
- Barns
- Fencing
- Vehicles
- Livestock
- Personal expenses (for full-time farmers only)

LOANS FOR REAL ESTATE

- Farmland
- Large acreage
- Timberland
- Residential lots

SECONDARY MARKET DIVISION

Our Secondary Market Division, AgSouth Mortgages, offers loans to farmers and non-farmers for:

- Home purchases in town or in the country
- Construction-to-perm loans with one closing at low fixed rates *(some restrictions apply)*
- Homes for investment purposes
- Second homes
- Vacation properties

ADDITIONAL SERVICES

For more information, please contact your local branch or visit AgSouthFC.com/products/farm-loans-services

- Crop Insurance
- Farm Credit EXPRESS
- Leasing
- Life Insurance

WE MAKE IT EASY TO MANAGE YOUR ACCOUNT

We offer convenient services to help you manage your time and money, even when life is at its busiest. Contact your loan officer or local branch for information and questions about these options.

DIGITAL BANKING ONLINE PORTAL

- Log in 24/7 to access all of your loan information, including current balance and next payment due date
- Make your loan payment online
- Transfer funds between your line of credit and your bank account
- Review past 16 months' activity
- Download and print your annual loan activity statement
- View & print 1098 & 1099 tax documents
- Sign up at AgSouthFC.com by clicking on Digital Banking at the top in the blue bar

AGSOUTH FARM CREDIT MOBILE APP

- Do everything you can do in the Digital Banking Portal when you're away from your computer. Now with fingerprint and facial recognition for extra security.
- Sign up online for Digital Banking first and then download the app from your smartphone

AUTODRAFT

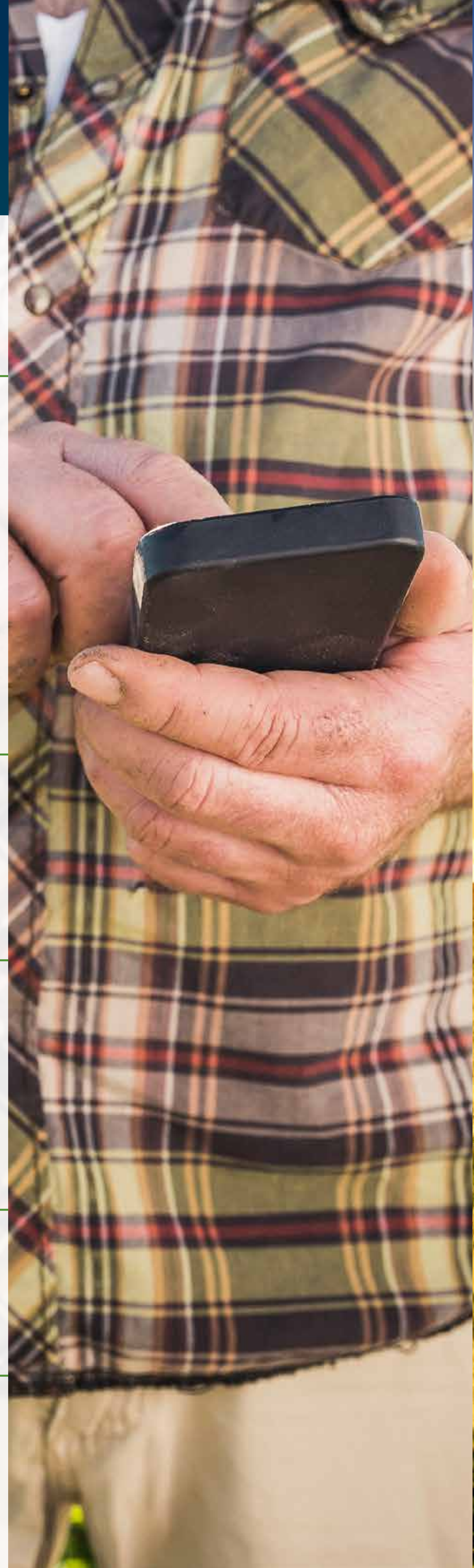
- Automatically deduct your loan payment from your checking or savings account
- Avoid late charges by knowing that your loan payment has been made on time every time
- Flexible draft date
- Contact your loan officer to set up automated payments

QUICK PAY

- A centralized and automated payment processing function, which streamlines payments initiated through a member's Internet Bill Payment service

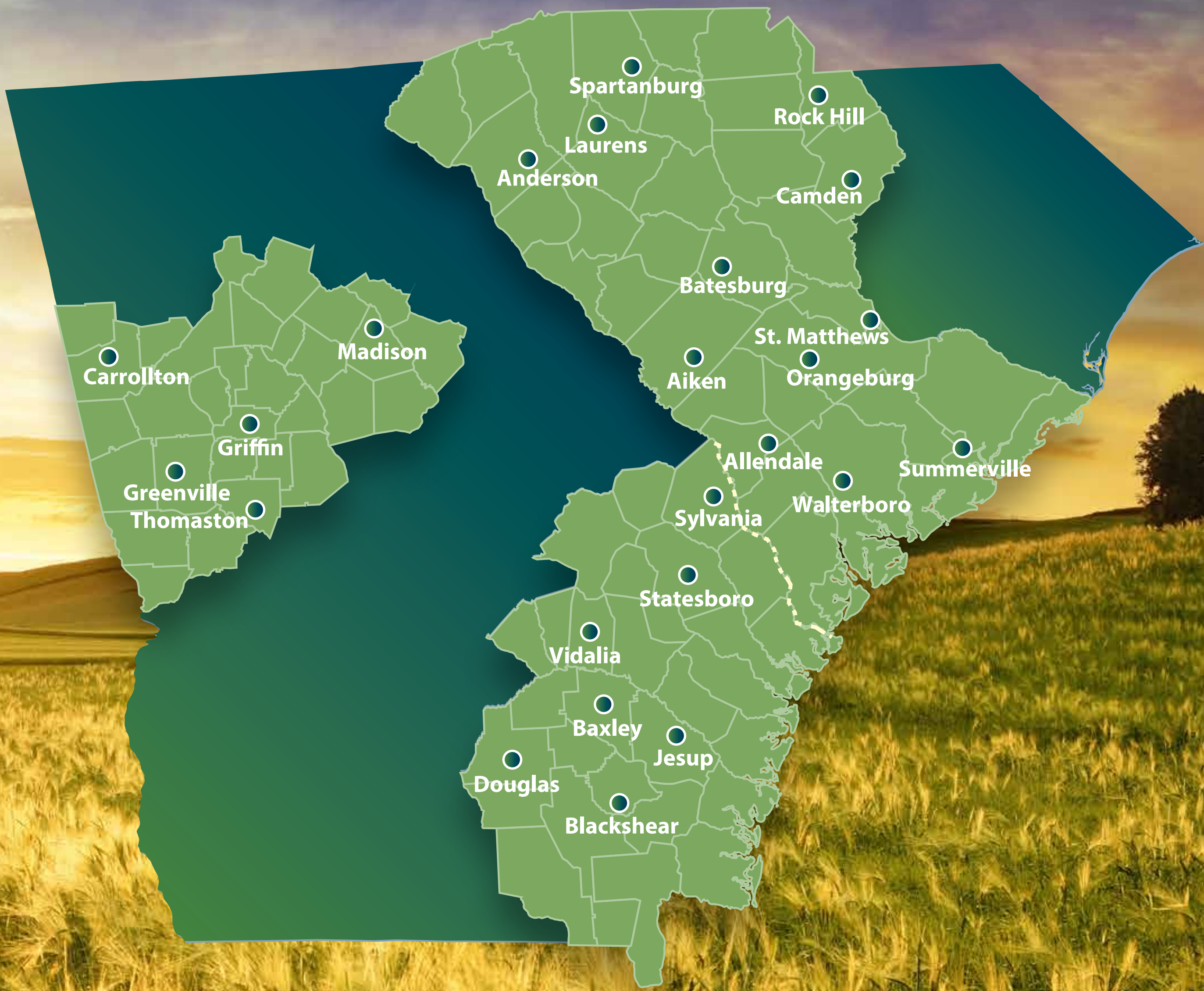
PATRONAGE AUTOMATED CLEARING HOUSE (ACH)

- Have your patronage check direct-deposited to your account. You will receive notice detailing the amount being distributed to you and the funds will be deposited the same day checks are issued.



AGSOUTH LOCATIONS

AgSouth serves members through 24 local branch offices in 59 Georgia counties and 34 South Carolina counties.



GEORGIA

BAXLEY
2215 Hatch Pkwy S
Baxley, GA 31513
912-367-7006

BLACKSHEAR
111 Carter Ave.
Blackshear, GA 31516
912-449-4701

CARROLLTON
2520 Hwy. 27 South
Carrollton, GA 30117
770-834-3319

DOUGLAS
204 Bowens Mill Rd.
Douglas, GA 31533
912-384-3200

GREENVILLE
596 S. Talbotton St.
Greenville, GA 30222
706-672-4285

GRIFFIN
1298 Enterprise Way
Griffin, GA 30224
770-228-8958

JESUP
855 Odum Hwy.
Jesup, GA 31545
912-530-7777

MADISON
1691 Lions Club Rd.
Madison, GA 30650
706-342-2352

STATESBORO
40 S. Main St.
Statesboro, GA 30458
912-764-9091

SYLVANIA
302 Mims Rd.
Sylvania, GA 30467
912-564-2468

THOMASTON
620 N. Church St.
Thomaston, GA 30286
706-647-8991

VIDALIA
314 Commerce Way
Vidalia, GA 30474
912-537-4135

SOUTH CAROLINA

AIKEN
951 E. Pine Log Rd.
Aiken, SC 29803
803-648-6818

ALLENDALE
4930 Burton's Ferry Hwy.
Allendale, SC 29810
803-584-3406

ANDERSON
1325 Pearman Dairy Rd.
Anderson, SC 29625
864-226-8507

BATESBURG
109 E. Church St.
Batesburg Leesville, SC 29070
803-532-3841

CAMDEN
951 Hwy. 1 South
Lugoff, SC 29078
803-438-2464

LAURENS
306 Hillcrest Dr.
Laurens, SC 29360
864-984-3379

ORANGEBURG
1880 Joe S. Jeffords Hwy.
Orangeburg, SC 29115
803-534-6546

ROCK HILL
1321 Springdale Rd.
Rock Hill, SC 29730
803-324-1131

SPARTANBURG
101 North Town Dr.
Spartanburg, SC 29303
864-585-0344

ST. MATTHEWS
2630 Colonel Thomson Hwy.
St. Matthews, SC 29135
803-874-3703

SUMMERVILLE
702 Kate Ln.
Summerville, SC 29483
843-821-6758

WALTERBORO
529 Bells Hwy.
Walterboro, SC 29488
843-549-1584

ADMINISTRATIVE OFFICE

STATESBORO, GA – HEADQUARTERS
26 S. Main St.
Statesboro, GA 30458
912-764-9091

VISIT US AT **WWW.AGSOUTHFC.COM** OR CALL **1-844-AGSOUTH** TO REACH ANY BRANCH

2022 FINANCIAL RESULTS

AgSouth Farm Credit, ACA

2022 ANNUAL REPORT

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Report of Management

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

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

The Consolidated Financial Statements have been audited by independent auditors, whose report appears within 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 AgSouth Farm Credit, 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.

H. Frank Ables, Jr.
Chairman of the Board 2022

Pat Calhoun
Chief Executive Officer

Bo Fennell
Chief Financial Officer

March 9, 2023

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2022. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2022, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2022.

Pat Calhoun
Chief Executive Officer

Bo Fennell
Chief Financial Officer

March 9, 2023

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2022	2021	December 31, 2020	2019	2018
Balance Sheet Data					
Cash	**$ 665**	$ 689	$ 133	$ 5,853	$ 5,026
Investments in debt securities	**3,548**	3,756	3,950	5,010	5,280
Loans	**2,082,158**	2,031,671	1,921,622	1,835,096	1,793,452
Allowance for loan losses	**(14,280)**	(17,712)	(17,357)	(16,361)	(15,444)
Net loans	**2,067,878**	2,013,959	1,904,265	1,818,735	1,778,008
Equity investments in other Farm Credit institutions	**29,476**	20,688	22,469	24,527	24,151
Other property owned	**—**	215	1,170	4,019	4,627
Other assets	**56,407**	80,166	75,844	65,633	67,770
Total assets	**$ 2,157,974**	$2,119,473	$2,007,831	$1,923,777	$1,884,862
Notes payable to AgFirst Farm Credit Bank*	**$ 1,643,799**	$1,617,876	$1,538,795	$1,481,914	$1,461,549
Accrued interest payable and other liabilities with maturities of less than one year	**55,931**	54,093	32,535	31,029	33,321
Total liabilities	**1,699,730**	1,671,969	1,571,330	1,512,943	1,494,870
Capital stock and participation certificates	**11,243**	11,107	10,626	10,012	9,567
Retained earnings					
Allocated	**101,191**	121,081	139,757	131,801	126,003
Unallocated	**346,152**	317,250	286,811	269,553	254,648
Accumulated other comprehensive income (loss)	**(342)**	(1,934)	(693)	(532)	(226)
Total members' equity	**458,244**	447,504	436,501	410,834	389,992
Total liabilities and members' equity	**$ 2,157,974**	$2,119,473	$2,007,831	$1,923,777	$1,884,862
Statement of Income Data					
Net interest income	**$ 69,086**	$ 67,635	$ 64,886	$ 62,771	$ 60,692
Provision for (reversal of) allowance for loan losses	**(3,788)**	771	1,687	1,349	581
Noninterest income (expense), net	**(10,971)**	5,387	3,755	(8,947)	(6,598)
Net income	**$ 61,903**	$ 72,251	$ 66,954	$ 52,475	$ 53,513
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.94%**	3.56%	3.47%	2.81%	2.94%
Total members' equity	**13.57%**	16.41%	16.29%	13.34%	14.49%
Net interest income as a percentage of average earning assets	**3.37%**	3.42%	3.47%	3.48%	3.45%
Net (chargeoffs) recoveries to average loans	**0.017%**	(0.021)%	(0.037)%	(0.024)%	0.003%
Total members' equity to total assets	**21.23%**	21.11%	21.74%	21.36%	20.69%
Debt to members' equity (:1)	**3.71**	3.74	3.60	3.68	3.83
Allowance for loan losses to loans	**0.69%**	0.87%	0.90%	0.89%	0.86%
Permanent capital ratio	**21.46%**	21.19%	21.03%	21.21%	20.20%
Common equity tier 1 capital ratio	**16.38%**	14.90%	14.49%	14.75%	13.93%
Tier 1 capital ratio	**16.38%**	14.90%	14.49%	14.75%	13.93%
Total regulatory capital ratio	**22.07%**	21.93%	21.81%	21.97%	20.92%
Tier 1 leverage ratio**	**16.01%**	14.36%	13.90%	14.04%	13.22%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**15.48%**	14.12%	13.76%	13.90%	13.06%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 33,000**	$ 42,062	$ 20,000	$ 11,160	$ 10,133
Nonqualified allocated retained earnings	**—**	—	28,001	26,040	23,644

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

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com****,* or may be obtained at no charge by calling 1-800-845-1745, extension 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.agsouthfc.com***, or by calling 1-912-489-4842, extension 2674, or writing Bo Fennell, CFO, P.O. Box 718, Statesboro, GA 30459. The Association prepares an electronic version of the Annual Report, which is available on the Association's website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the Association's 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 US 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 US 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 84.0 percent of the total value of the US 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 US 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. US exports and imports may periodically shift to reflect short-term disturbances to trade patterns and long-term trends in world population demographics. Also impacting US agricultural trade are global agricultural and commodity supplies and prices, changes in the value of the US 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 District coupled with existing government safety net programs, ad hoc support programs and additional government disaster aid payment for many borrowers help to mitigate the impact of challenging agricultural conditions. The District's financial performance and credit quality are expected to remain sound overall due to strong capital levels and favorable credit quality position at the end of 2022. Additionally, while the District benefits overall from diversification, individual District entities may have higher geographic, commodity, and borrower concentrations which may accentuate the negative impact on those entities' financial performance and credit quality. Non-farm income support for many borrowers also helps to mitigate the impact of periods of less favorable agricultural conditions. However, agricultural borrowers who are more reliant on non-farm income sources may be more adversely impacted by a weakened general economy.

ECONOMIC CONDITIONS

Three of the top agricultural commodities by repayment source in the AgSouth Farm Credit, ACA portfolio are broilers, timber, and cotton. The purpose of this section is to give an overview of a few of the largest agricultural commodities and special mention to other commodity groups as needed.

Broilers – In *the National Agriculture Statistics Service Report* (NASS) for the week ending December 24, 2022, domestic broiler growers placed 188 million chicks for meat production which is up 1.0 percent from a year ago. Cumulative placements in 2022 were 9.6 billion, which is a 2.0 percent increase from 2021. In Georgia, 27.8 million broiler chicks were placed which is a 5.3 percent increase from the same period last year. South Carolina had 4.8 million broiler chicks placed which represents a 9.4 percent decrease from last year.

Timber - According to the TimberMart-South *Quarterly Market Bulletin ~ 4th Quarter* south-wide average stumpage prices increased for all major pine products but decreased for the major hardwood products in the fourth quarter. The movement in price in pine products is typical historically in the fourth quarter. However, Southern pine lumber prices have decreased more than 60.0 percent since March of 2022.

Cotton – According to the NASS *Annual Crop Production Report* for 2022, Georgia and South Carolina experienced higher levels of cotton production in relation to the 2021 production report. Georgia, at 2.6 million bales, was up 18.0 percent from 2021. South Carolina, at 530,000 bales, was up 25.0 percent from the previous year.

Other Crop Production – The NASS *Annual Crop Production Report* for 2022 includes statistics for corn, peanut, and soybean production. In Georgia, corn and peanut production decreased by 17.0 percent and 13.0 percent, respectively, from 2021 production levels. Georgia's soybean production was up 6.0 percent from the previous year. South Carolina reported an increase in peanut production of 3.0 percent from 2021. Corn and soybean production decreased by 31.0 percent and 1.0 percent, respectively, in South Carolina.

LOAN PORTFOLIO

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

The diversification of the Association loan volume by type for each of the past three years is shown in the table below. See Note 3, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for information on these classification revisions.

	December 31,					
Loan Type	**2022**		**2021**		**2020**	
	(dollars in thousands)					
Real estate mortgage	$ 1,637,408	78.64%	$ 1,563,155	76.94%	$ 1,457,592	75.85%
Production and intermediate-term	296,885	14.26	324,964	15.99	326,901	17.01
Processing and marketing	21,079	1.01	23,743	1.17	24,636	1.28
Farm-related business	21,789	1.04	19,427	.96	24,650	1.28
Rural residential real estate	104,842	5.04	100,215	4.93	87,663	4.56
Other	155	0.01	167	.01	180	.02
Total	$ 2,082,158	100.00%	$ 2,031,671	100.00%	$ 1,921,622	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. The geographic distribution of the loan volume by branch for the past three years is as follows:

	December 31,		
	2022	**2021**	**2020**
Administrative Branches			
Corporate	1.04%	.86%	1.20%
Special Assets Management (SAM)	.46	.72	.85
Georgia Branches			
Baxley	2.26%	2.44%	2.58%
Blackshear	5.73	5.91	5.69
Carrollton	3.25	3.46	3.61
Douglas	6.62	6.69	7.31
Greenville	4.46	4.34	4.35
Griffin	2.02	1.80	1.87
Jesup	1.62	1.78	1.70
Madison	7.53	8.02	8.87
Statesboro	6.47	6.54	6.72
Sylvania	2.03	1.94	1.99
Thomaston	4.00	4.10	3.54
Vidalia	2.64	2.77	2.68
South Carolina Branches			
Aiken	2.83%	2.81%	2.39%
Allendale	3.00	2.60	2.77
Anderson	7.28	7.24	6.88
Batesburg	5.66	5.69	5.55
Camden	4.70	4.17	3.90
Laurens	5.11	5.28	5.28
Orangeburg	4.10	4.12	4.13
Rock Hill	3.90	4.05	3.99
Spartanburg	4.12	3.98	3.84
St. Matthews	1.27	1.15	1.02
Summerville	4.08	3.85	3.63
Walterboro	3.82	3.69	3.66
	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 loan portfolio are shown below. Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the non-farm income of borrowers. The predominant commodities are timber, forest products; broilers; turkeys; eggs; cotton; beef cattle, pasture; feed grains, soybeans and hay; horses; blueberries, fruits and nuts; timber processing and harvesting; sod, nursery and horticulture; and peanuts. These commodities constitute approximately 86 percent of the entire portfolio. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production which reduces overall risk exposure.

Commodity Group	December 31, 2022		2021		2020	
	(dollars in thousands)					
Timber, Forest Products	$ 870,336	42 %	$ 794,943	39 %	$ 725,395	38 %
Broilers	217,822	10	237,942	12	236,916	12
Beef Cattle, Pasture	152,612	7	161,053	8	154,598	8
Feed Grains, Soybeans & Hay	152,044	7	151,535	7	145,998	8
Cotton	135,390	7	132,196	7	133,981	7
Rural Home	104,218	5	99,361	5	86,788	5
Other	78,442	4	65,268	3	64,475	3
Horses	71,809	4	72,173	4	72,527	4
Blueberries, Fruits & Nuts	70,439	3	70,700	4	63,291	3
Landlords	49,437	2	52,751	3	48,301	2
Vegetables & Tomatoes	35,191	2	30,827	2	27,448	1
Sod, Nursery, & Horticulture	33,698	2	29,505	1	29,509	2
Peanuts	32,665	2	31,448	2	31,732	2
Timber Processing & Harvesting	28,817	1	35,808	2	40,309	2
Onions	14,781	1	20,653	1	13,932	1
Turkeys	10,466	1	11,276	–	13,100	1
Dairy	9,210	–	13,715	–	14,137	1
Eggs	7,977	–	11,990	–	10,898	–
Tobacco	3,440	–	5,449	–	5,297	–
Hogs	3,364	–	3,078	–	2,990	–
Total	$ 2,082,158	100 %	$ 2,031,671	100 %	$ 1,921,622	100 %

The Association holds a concentration of large loans, but the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diverse farming operations in the Association's territory.

Loan volume increased to $2,082,158 from $2,031,671 between December 31, 2021 and December 31, 2022. The increase of $50,487 or 2.48 percent, for the twelve months ended December 31, 2022, is primarily attributed to an increase in draws on operating funds, an increase in term loans originated, and the closing of several large transactions during the year. Loan volume increased from $1,921,622 at December 31, 2020 to $2,031,671 at December 31, 2021. This was an increase of $110,049 or 5.73 percent between those two reporting periods.

The short-term portfolio, heavily influenced by seasonal operating-type loans, normally reaches a peak balance in August and rapidly declines into the first quarter of the next year as commodities are marketed and proceeds are applied to repay operating loans.

During 2022, the Association activity in the purchasing of loan participations outside the System increased, as well as purchases within the System. The purchase of participation loans increased between the periods ended December 31, 2021 and December 31, 2022 by 34.50 percent or $6,192. This includes purchases from both Farm Credit System (FCS) Institutions and Non-FCS Institutions. The increase is attributed to new participations purchased offset by normal payments and payoffs of participations purchased during the reporting period.

Loans sold increased 1.60 percent or $5,519 from $343,923 to $349,442 between the periods ended December 31, 2021 and December 31, 2022. The increase in sold loans is linked to increased activity in the participations market. Selling participations in larger credits provides a means for the Association to spread credit risk, concentration risk and realize interest and fee income, which may strengthen the capital position. Between the same periods in 2020 and 2021, loans sold decreased 23.77 percent.

Loan Participations	December 31, 2022	2021	2020
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 20,554	$ 15,423	$ 14,486
Participations Purchased – Non-FCS Institutions	3,584	2,523	2,907
Participations Sold	(349,442)	(343,923)	(451,140)
Total	$ 325,304	$ (325,977)	$ (433,747)

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.

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2022, the Association originated loans for resale totaling $250,841, which were sold into the secondary market. For the years ended December 31, 2021 and 2020, loans sold into the secondary market totaled $310,920 and $260,162, respectively. At December 31, 2022, there was $815 classified as loans held for sale on the Association's balance sheet. The decrease in loans sold from 2021 to 2022 is due to the high interest rate environment we are currently experiencing. Between 2020 and

2021 there was an increase in loans sold as a result of a lower interest rate environment and an increase in refinancing activity.

The Association also participates in the Farmer Mac Long - Term Stand By Program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2022, the Association had loans totaling $1,103 which were 100 percent guaranteed by Farmer Mac. The Association additionally originated portions of loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. During the years ended December 31, 2022, 2021, and 2020 the balance of these loans, including the unamortized premium, was $156,980, $173,604, and $179,173, respectively.

MISSION RELATED INVESTMENTS

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period and the program was extended to 2017. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing.

These bonds are classified as Investments on the Consolidated Balance Sheets. As of December 31, 2022, 2021 and 2020 the Association had $3,548, $3,756 and, $3,950 respectively, in Rural America Bonds.

Effective December 31, 2014, the FCA concluded each pilot program approved as part of the Investment in Rural America Bonds program. Institutions participating in such programs may continue to hold its investment through the maturity dates of the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral).

As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. 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. Appraisals are required for loans of more than $250. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

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

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

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

Credit Quality	2022	2021	2020
Acceptable & OAEM	98.99%	98.90%	98.81%
Substandard/Doubtful/Loss	1.01%	1.10%	1.19%
Total	100.00%	100.00%	100.00%

The increase in Acceptable and OAEM percentage of volume can be linked to the decrease in the amount of loans that have become distressed. Workouts can include payments and paydowns that result in moving the asset back to an acceptable quality or restructuring of the credit. The Association recognizes that there may be situations where borrowers need to sell assets to repay debt. While the underlying collateral may not be the sole repayment source, in some cases, borrowers have been attempting to sell collateral in order to pay down or liquidate their debt to the Association.

Nonperforming Assets

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

Nonperforming Assets	Year Ended December 31, 2022	2021	2020
	(dollars in thousands)		
Nonaccrual loans	$ 14,323	$ 12,133	$ 15,280
Restructured loans	6,800	6,680	5,136
Accruing loans 90 days past due	–	–	–
Total nonperforming loans	21,123	18,813	20,416
Other property owned	–	215	1,170
Total nonperforming assets	$ 21,123	$ 19,028	$ 21,586
Ratios			
Nonaccrual loans to total loans	0.69%	0.60%	0.80%
Nonperforming assets as a percentage of total loans and other property owned	1.01%	0.94%	1.12%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $2,190 or 18.05 percent in 2022. This increase is the result of loans moving through the distressed collection process and includes several large accounts. Of the $14,323 in nonaccrual volume at December 31, 2022, $5,097 or 35.59 percent, compared to 30.69 percent and 42.60 percent at December 31, 2021 and 2020, respectively, were current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

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, rates, or a compromise of amounts owed. Other receipts of assets and/or equity to pay the loan in full or in part may also be considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred for both the Association and the borrower. Restructured loans increased in 2022 from $6,680 at December 31, 2021 to $6,800 at December 31, 2022. The increase is the result of more customers requiring formal restructure to satisfy debt payment.

The schedule below shows the number and book value of other property owned for the years ending December 31, 2022, 2021, and 2020.

Other Property Owned	December 31, 2022	2021	2020
	(dollars in thousands)		
Number of Properties	–	2	5
Book Value of Properties	$ –	$ 215	$ 1,170

During the fiscal year, 3 properties with a book value of $78 were added to the portfolio and 5 dispositions, excluding partial sales, were processed through the normal course of business. Total sales price of other property owned was $340. The gains, net of write-downs, of other property owned totaled $47 during the reporting period. Expenses on other property owned totaled $24 and the total net gain realized for the period ending December 31, 2022 was $23.

The decrease in the balance of other property owned from December 2021 to December 2022 is net of acquisitions and write-down transactions on other property owned. In some cases the acquisitions were through foreclosure and others through a deed in lieu of foreclosure process.

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 prepared according to generally accepted accounting principles.

Allowance for Loan Losses Activity	Year Ended December 31, 2022	2021	2020
	(dollars in thousands)		
Balance at beginning of year	$ 17,712	$ 17,357	$ 16,361
Charge-offs:			
Real estate mortgage	(25)	(41)	(12)
Production and intermediate-term	(128)	(410)	(909)
Agribusiness	–	(234)	(262)
Rural residential real estate	(15)	(6)	(5)
Other	–	–	–
Total charge-offs	(168)	(691)	(1,188)
Recoveries:			
Real estate mortgage	102	89	335
Production and intermediate-term	406	168	157
Agribusiness	2	1	1
Rural residential real estate	14	17	4
Other	–	–	–
Total recoveries	524	275	497
Net (charge-offs) recoveries	356	(416)	(691)
Provision for (reversal of allowance for) loan losses	(3,788)	771	1,687
Balance at end of year	$ 14,280	$ 17,712	$ 17,357
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.017%	(0.021)%	(0.037)%

The net loan charge-offs and recoveries were associated with real estate mortgage, production and intermediate term, agribusiness, and rural residential real estate loans. There was no specific trend in the charge-offs or recoveries recognized.

The reversal of allowance for loan losses decreased the Allowance for Loan Losses account by $3,788 during 2022. Analysis of the Allowance account is completed on a quarterly basis and reviewed by the Association's Asset/Liability Committee which is comprised of members of Executive Management and other selected staff members. The decrease in the qualitative assessment portion of the allowance was necessary to better align the Association's total allowance with historical trends.

Allowance for Loan Losses by Type	December 31, 2022	2021	2020
	(dollars in thousands)		
Real estate mortgage	$ 10,254	$ 13,525	$ 13,021
Production and intermediate-term	3,027	2,923	3,017
Agribusiness	344	399	538
Rural residential real estate	654	864	779
Other	1	1	2
Total allowance	$ 14,280	$ 17,712	$ 17,357

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

Allowance for Loan Losses as a Percentage of	December 31, 2022	2021	2020
Total loans	0.69%	0.87%	0.90%
Nonperforming loans	67.60%	94.15%	85.02%
Nonaccrual loans	99.70%	145.98%	113.59%

Given the possibility of portfolio growth and other potential losses, management has determined that the current level of allowance is adequate.

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 Interest Income

Net interest income before the provision for loan loss was $69,086, $67,635, and $64,886 in 2022, 2021 and 2020, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, asset yield, and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past two years 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	$ 3,946	$ 4,388	$ 8,334
Interest expense	1,239	5,644	6,883
Change in net interest income	$ 2,707	$ (1,256)	$ 1,451
12/31/21 - 12/31/20			
Interest income	$ 6,439	$ (6,928)	$ (489)
Interest expense	2,048	(5,285)	(3,237)
Change in net interest income	$ 4,391	$ (1,643)	$ 2,748

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

Noninterest Income

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

Noninterest Income	For the Year Ended December 31, 2022	2021	2020	Percentage Increase/(Decrease) 2022-2021	2021-2020
	(dollars in thousands)				
Loan fees	$ 4,244	$ 6,023	$ 5,285	(29.54)%	13.96%
Fees for financially related services	4,003	3,377	2,649	18.54	27.48
Patronage refund from other Farm Credit Institutions	25,248	36,706	32,131	(31.22)	14.24
Gains (losses) on sales of rural home loans, net	2,797	3,335	2,533	(16.13)	31.66
Gains (losses) on sales of premises and equipment, net	306	188	175	62.77	7.43
Gains (losses) on other transactions	(1,514)	389	45	(489.20)	764.44
Insurance Fund refunds	–	–	339	–	(100.00)
Other noninterest income	586	265	1,624	121.13	(83.68)
Total noninterest income	$ 35,670	$ 50,283	$ 44,781	(29.06)%	12.29%

Loan fees decreased $1,779 or 29.54 percent when comparing the reporting periods 2022 to 2021. The decrease is the result of lower originations for loans sold in the secondary market and the discontinuation of the Small Business Administration's Paycheck Payment Protection Program during the height of the pandemic in which the Association earned income. Loan fees increased $738 or 13.96 percent between the periods ending December 31, 2021 and December 31, 2020.

Fees for financially related services increased $626 or 18.54 percent from December 31, 2021 to December 31, 2022. Fees from financially related services include fees from leasing, crop insurance and life insurance. Between the reporting periods ended December 31, 2020 and December 31, 2021, fees for financially related services increased by $728 to $3,377 from $2,649.

There was an $11,458 or 31.22 percent decrease in patronage refund from other Farm Credit Institutions between the periods ended December 31, 2021 and December 31, 2022. In 2022, the Association earned $15,130 in patronage refund from AgFirst, as well as $9,104 in special distribution in the form of allocated surplus. In 2021, the Association earned $14,777 in a patronage refund and $21,523 in a special distribution, compared to $14,227 in a patronage refund and $17,505 in a special distribution for 2020. The amount of patronage refund is based upon the notes payable balance with AgFirst. The amount of the special distribution, if any, is determined by the AgFirst Farm Credit Bank Board of Directors and may or may not reoccur in future years.

For the period ended December 31, 2022, the Association earned $355 in patronage refund from other Farm Credit Institutions other than AgFirst. This compares to $407 and $398 for the periods ended December 31, 2021 and December 31, 2020, respectively. The decrease in patronage from other Farm Credit Institutions is attributable to less outstanding volume sold to other Farm Credit entities.

Gains on the sales of rural home loans in the secondary market totaled $2,797 for the period ended December 31, 2022. This was a decrease of $538 or 16.13 percent from the period ended December 31, 2021. The decrease is the result of the decrease in originations between the two reporting periods. For the period ended December 31, 2021, gains totaled $3,335. Gains increased between December 31, 2020 and December 31, 2021 by $802 or 31.66 percent.

Gains on the sales of premises and equipment increased $118 or 62.77 percent between December 31, 2021 and December 31, 2022. In both 2022 and 2021, gains from the sale of Association automobiles are included in the $306 and $188, respectively. Net gains on the sales of premises and equipment totaled $175 for the period ending December 31, 2020.

There was a $1,903 or 489.20 percent decrease in Gains on other transactions between the periods ended December 31, 2021 and December 31, 2022. For the period ended December 31, 2022 losses totaled $1,514. Gains on other transactions include gains on Rabbi Trust plans held for certain retirees, the expense to fund the allowance for loan losses for unused commitments, and losses tied to settlement disputes. Between December 31, 2020 and December 31, 2021, Gains on other transactions increased 764.44 percent from $45 to $389.

Insurance Fund refunds for the period ended December 31, 2022 totaled $0 due to the Insurance Fund with the Farm Credit Insurance Corporation being underfunded. This line item includes a nonrecurring refund from the Farm Credit System Insurance Corporation as a result of overfunding during the previous year(s). For the period ended December 31, 2021 Insurance Fund refunds totaled $0, and for December 31, 2020 the total was $339.

Other noninterest income increased $321 from $265 at December 31, 2021 to $586 at December 31, 2022. This line item includes recovery amounts from allocated surplus for some borrowers in default, payments received regarding settlement agreements, and volume incentives earned from AgFirst for secondary market loans sold. Other noninterest income decreased from $1,624 in 2020 to $265 in 2021.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2022	2021	2020	Percentage Increase/(Decrease) 2022-2021	2021-2020
	(dollars in thousands)				
Salaries and employee benefits	$ 31,654	$ 33,212	$ 30,111	(4.69)%	10.30%
Occupancy and equipment	2,054	1,956	2,344	5.01	(16.55)
Insurance Fund premiums	2,971	2,298	1,306	29.29	75.96
Purchased services	2,585	1,465	1,834	76.45	(20.12)
Data processing	497	445	406	11.69	9.61
Other operating expenses	6,911	5,640	4,878	22.54	15.62
(Gains) losses on other property owned, net	(23)	(198)	148	(88.38)	(233.78)
Total noninterest expense	$ 46,649	$ 44,818	$ 41,027	4.09 %	9.24%

Salaries and employee benefits decreased $1,558 or 4.69 percent in 2022, as compared with 2021, and increased $3,101 or 10.30 percent when comparing 2021 to 2020. The decrease between the 2022 and 2021 reporting periods was due to a decrease in pension expense during the year.

Occupancy and equipment expense increased $98 between the reporting periods ended December 31, 2022 and December 31, 2021. The increase of 5.01 percent is the result of an increase in non-routine property maintenance, lease/rental, and utility expenses. The decrease of $388 between December 31, 2020 and December 31, 2021 is the result of a decrease in depreciation and lease expenses.

Insurance Fund premiums increased $673 or 29.29 percent for the twelve months ended December 31, 2022, compared to the same period of 2021. Between 2020 and 2021, the Insurance Fund premium increased 75.96 percent or $992. The Farm Credit System Insurance Corporation (FCSIC) sets the premium annually and the Association's increase in loan volume and an increase in the premium resulted in a net increase in the insurance expense in the 2022 reporting period. Nonaccrual loans and other-than-temporary impaired investments are assessed a higher premium rate.

Purchased services increased $1,120 or 76.45 percent for the twelve months ended December 31, 2022, compared to the same period of 2021. The increase is correlated to the increase in loan volume and the associated closing costs, as well as legal and merger expenses. This compares to a decrease of $369 between December 31, 2020 and December 31, 2021.

Data processing for the year ended December 31, 2022 totaled $497. This is a $52 or 11.69 percent increase over year ended December 31, 2021. This increase is due to increased cost in services from AgFirst. For the period ended December 31, 2020, data processing totaled $406.

Other operating expenses increased $1,271 between December 31, 2021 and December 31, 2022. Other operating expenses includes travel, training, advertising, public and member relations, communications, directors, supervisory and examination, and all other expenses not detailed above necessary to operate the Association. Comparing other operating expenses for the period ended December 31, 2021 to December 31, 2020, other operating expenses increased $762 or 15.62 percent. The increase between 2021 and 2020 was primarily due to the reclassification of property tax expenses.

The Association took in and disposed of several pieces of other property owned in 2022. Subsequently, the Association recorded $23 in net gains on other property owned. This compares to gains of $198 for the period ended December 31, 2021. For the period ended December 31, 2020, the Association had recorded losses of $148. Gains and losses recorded on transactions regarding other property owned are related to changes in asset valuations to correspond to more recent appraisals or the sale of other property owned.

Income Taxes

The Association recorded a benefit for income taxes of $8 for the year ended December 31, 2022, as compared to a provision of $78 for 2021 and a benefit of $1 for 2020. Refer to Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/22	12/31/21	12/31/20
Return on average assets	2.94%	3.56%	3.47%
Return on average members' equity	13.57%	16.41%	16.29%
Net interest income as a percentage of average earning assets	3.37%	3.42%	3.47%
Net (charge-offs) recoveries to average loans	0.017%	(0.021)%	(0.037)%

The return on average assets and return on members' equity decreased in 2022 when compared to 2021. The decrease in earnings accompanied with an increase in average assets resulted in lower returns on average assets and average members' equity.

The slight decrease in the percentage of net interest income to average earning assets is due to expected variances in net interest income and average earning assets between the two reporting periods. Average earning assets increased from $1,965,889 to $2,042,115 between 2021 and 2022 as a result of growth in the portfolio.

The percentage of net charge-offs and recoveries to average loans was less than one percent in the 2022 reporting period, and the Association's recoveries exceeded the total amount of charge-offs. The decision to take a charge-off for financial purposes is made by tenured staff that specializes in handling distressed loan situations.

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

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2022, were $1,643,799 as compared to $1,617,876 at December 31, 2021 and $1,538,795 at December 31, 2020. The increase of $25,923 or 1.60 percent comparing December 31, 2022 to December 31, 2021 was attributable to the higher balance of loans outstanding. When comparing December 31, 2021 to December 31, 2020, total notes payable increased $79,081 or 5.14 percent.

The average volume of outstanding notes payable to the Bank was $1,614,222 and $1,564,944 for the years ended December 31, 2022 and 2021, respectively. Refer to Note 6, *Debt*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses, and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association. The Association had no lines of credit from third party financial institutions as of December 31, 2022, 2021 and 2020.

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the London Interbank Offered Rates (LIBOR). It should be noted that the future of LIBOR as a recognized pricing index is uncertain and other indices may be considered going forward. Adjustable rate mortgages are indexed to US Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Relationship with the Bank

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

The Bank's ability to access capital of the Association is discussed in Note 4, *Investments*, 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 Sources" section of this Management's Discussion and Analysis and in Note 6, *Debt*, included in this Annual Report.

The Bank also provides key services related to payroll and human resource processing and accounting services. In the area of technology, the Bank provides services including mainframe and network server applications. These applications include network communications, loan origination, loan accounting and disaster recovery. Some services include a specific fee structure, while others are incorporated into the Bank's funding formula.

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/borrowers, and to ensure that all stockholders are treated equitably. The 2022 Capitalization Plan incorporated the regulatory capital ratios as required by the FCA. There are no other changes that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2022, increased $10,740 or 2.40 percent to $458,244 from the December 31, 2021 total of $447,504. At December 31, 2021, total members' equity increased 2.52 percent from the December 31, 2020 total of $436,501. The increase was primarily attributed to earnings in excess of revolvement of allocated earnings and the decision to retain a level of patronage source earnings to build capital.

Total capital stock and participation certificates and protected borrower stock were $11,243 on December 31, 2022, compared to $11,107 on December 31, 2021 and $10,626 on December 31, 2020. The increase was attributed to purchases of stock associated with new borrowing entities exceeding the liquidations of stock in the normal course of business.

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 regulatory 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.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

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, 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, 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 assets less regulatory deductions to tier 1 capital.
- The UREE 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 assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2022	2021	2020
Risk-adjusted ratios:						
CET1 Capital	4.50%	2.50%	7.00%	16.38%	14.90%	14.49%
Tier 1 Capital	6.00%	2.50%	8.50%	16.38%	14.90%	14.49%
Total Capital	8.00%	2.50%	10.50%	22.07%	21.93%	21.81%
Permanent Capital	7.00%	–%	7.00%	21.46%	21.19%	21.03%
Non-risk-adjusted:						
Tier 1 Leverage*	4.00%	1.00%	5.00%	16.01%	14.36%	13.90%
UREE Leverage	1.50%	–%	1.50%	15.48%	14.12%	13.76%

* *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 officer bonuses are restricted or prohibited without prior FCA approval.

A slight increase in the Association's total regulatory capital was attributed to growth in the Association's capital components. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements. See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements for more information concerning the patronage distributions. The Association declared patronage distributions of $33,000 in 2022, $32,062 in 2021, and $40,001 in 2020.

Patronage declared by the Board of Directors for 2022 was $33,000 and will be paid in an all cash distribution during 2023. Payment of patronage is usually made in the first quarter of the following fiscal year.

The Association closes the books with an estimated patronage distribution and then makes a final adjustment to the amount prior to actual payment. The adjustment entries are shown on the Member Equity Statement as a "Patronage Distribution Adjustment."

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning**, and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. The following chart reflects the Association's goals and progress toward those goals in each category.

Total Portfolio Goals and Progress
December 31, 2022

	Number of Loans 2022 Goal	Number of Loans 2022 Actual	Amount of Loans 2022 Goal	Amount of Loans 2022 Actual
Young	3,141	3,345	$366,567	$385,862
Beginning	7,368	8,364	$907,793	$1,088,417
Small	11,089	11,458	$1,166,547	$1,286,592

New Loan Goals and Progress
December 31, 2022

	Number of New Loans 2022 Goal	Number of New Loans 2022 Actual	Amount of New Loans 2022 Goal	Amount of New Loans 2022 Actual
Young	810	919	$136,915	$134,891
Beginning	1,872	2,076	$324,005	$361,713
Small	2,643	2,707	$375,029	$410,427

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

The 2017 USDA Ag Census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory there were 34,360 farms. Farms with young operators were 3,519, farms with beginning operators were 11,277, and small farms were 32,052. Comparatively, as of December 31, 2022 the demographics of the Association's portfolio contained 14,885 loans of which by definition 3,345 were Young, 8,364 were Beginning, and 11,458 were Small.

In 2022, the Association's Director of Marketing was responsible for the Young, Beginning, and Small farmer program. It is an integral part of the Association's business plan. The following strategies have helped the Association work toward its goals and objectives relative to Young, Beginning, and Small farmer programs:

- Provide current and pertinent farm management and financial training to YBS customers and prospects in group settings through AGAware® program and one-on-one
- Encourage young people to choose agriculture as a profession by supporting 4-H and Future Farmers of America
- Encourage use of Student Agricultural Project loan program by visiting with 4-H representatives and Future Farmers of America chapters in the service area
- Support Young Farmer Groups in the service area and at the state level
- Make customers and prospects aware of farm related services and encourage them to take advantage of beneficial programs through advertising and public relations
- Closely work with Farm Service Agency (FSA) personnel to meet the needs of YBS customers and prospects

Specific YBS activities in fiscal year 2022 include the following:

- Through social media, posted "How to Construct a Balance Sheet", an AgSouth instructional video
- Promoted and shared events, resources and information to help educate and support young, beginning, and small farmers on our blog, social media outlets, email newsletters, and member publication
- Sponsored and attended 4-H Annual Banquet
- Sponsored multiple Future Farmers of America awards and acted as judge for both Georgia and South Carolina State Conventions
- Advertised in multiple Young, Beginning, and Small publications in both Georgia and South Carolina
- Offered 25 grants to local Farmers Markets for a total of $25,000 investment to promoting their markets
- Sponsored multiple Future Farmers of America and 4-H competitions and livestock shows in Georgia and South Carolina
- Provided scholarships at Clemson University, University of Georgia, South Carolina State University, Fort Valley State University, Abraham Baldwin Agricultural College, and Ogeechee Technical College
- Sponsored and presented the Farmer of the Year Awards in Georgia and South Carolina
- Sponsored and presented at Young Farmer Conferences in Georgia and South Carolina
- Attended, sponsored, and presented upon request at numerous, county Young Farmer and Extension meetings throughout the Association's territory
- Sponsored North Carolina State's Executive Farm Management Program
- Conducted a full day AGAware® workshop at the Vidalia Onion Research Center in Lyons, Georgia
- Presented on crop insurance and financing options to Team Agriculture Georgia (TAG) virtual workshop as part of the curriculum
- Active member of TAG / Christy Smith, Director of Marketing, Vice-Chairman
- Sponsored and attended Georgia Future Farmers of America Clay Shoot fundraiser
- Sponsored and attended Georgia Future Farmers of America Blue and Gold Gala
- Sponsored Georgia Organics Conference
- Sponsored University of Georgia's Advancing Georgia's Leaders in Agriculture program where Pat Calhoun, Association CEO, sits on Advisory Council Board
- Sponsored and hosted Leadership Southeast Georgia
- Christy Smith, Association Director of Marketing, is an active member of Ogeechee Technical College's Agribusiness Program's Advisory Board
- Christy Smith, Association Director of Marketing, is an active member of the Georgia Future Farmers of America Foundation Board
- Conducted a full day AGAware® workshop at Aiken Technical College in Aiken, South Carolina
- Presented on Developing a Farm Business Plan to Clemson Extension's South Carolina New, Beginning, Young Farmer Program
- Sponsored and presented at Annie's Project, a farm management training for women in South Carolina – Heather Brannen, Association Marketing Coordinator, is a member of their Advisory Committee
- Presented on Balance Sheets to Clemson Extension's New, Beginning, Young Farmer Program
- Sponsored and promoted Clemson Extension's New, Beginning, Farmer Program (SCNBFP) workshop series
- Sponsored South Carolina Future Farmers of America Fundraiser
- Sponsored and presented at South Carolina Farm Bureau Ag in the Classroom
- Sponsored the South Carolina Commissioner's School of Agriculture
- Partnered with South Carolina Department of Agriculture on an Organic Certification Cost Reimbursement Grant

The Association is committed to the future success of young, beginning and small farmers.

*Young farmers are defined as those farmers, ranchers, producers, or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

**Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

***Small farmers are defined as those farmers, ranchers, producers, or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

Additionally, the Census data is based upon number of farms; whereas, the Association's data is based on number of loans.

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 effective 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.

NOTICE OF SIGNIFICANT EVENTS

On May 24, 2022, the Board of Directors of the Association and Carolina Farm Credit, ACA signed a letter of intent to merge the two Associations. The merger has been approved by AgFirst, the FCA, and shareholders of both Associations, subject to a reconsideration period which ends on March 22, 2023. Following final approval by all required parties, the merger is expected to take effect upon the commencement of business on April 1, 2023.

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 US 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 period end:

	December 31, 2022				
(dollars in thousands)	Before June 30, 2023	Due After June 30, 2023	Total	% Due After June 30, 2023 to Balance Sheet Line Item	% Due After June 30, 2023 without fallback provisions
Loans	$ –	$ 5,220	$ 5,220	0.25%	–%
Total Assets	$ –	$ 5,220	$ 5,220	0.24%	–%
Note Payable to AgFirst Farm Credit Bank	$ –	$ 4,765	$ 4,765	0.29%	–%
Total Liabilities	$ –	$ 4,765	$ 4,765	0.28%	–%

RECENTLY 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 Update (ASU) was issued by the Financial Accounting Standards Board (FASB) but has not yet been adopted:

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 adoption of the standard will not have a material impact on the Association's investment portfolio. • 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 distributes its earnings in a Patronage program as described in *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in this Annual Report. During 2022, there were no significant changes to existing patronage policies and practices.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity:

Location	Description	Form of Ownership
26 South Main Street Statesboro, GA	Headquarters	Owned
20 East Vine Street Statesboro, GA	Operations Center	Owned
951 East Pine Log Road Aiken, SC	Branch	Owned
4930 Burtons Ferry Highway Allendale, SC	Branch	Owned
1325 Pearman Dairy Road Anderson, SC	Branch	Owned
109 East Church Street Batesburg-Leesville, SC	Branch	Owned
2215 Hatch Parkway South Baxley, GA	Branch	Owned
111 Carter Avenue Blackshear, GA	Branch	Owned
951 Highway 1 South Lugoff, SC	Branch	Owned
2520 Highway 27 South Carrollton, GA	Branch	Owned
204 Bowens Mill Road Douglas, GA	Branch	Owned
596 South Talbotton Street Greenville, GA	Branch	Owned
1298 Enterprise Way Griffin, GA	Branch	Owned

Location (cont.)	Description	Form of Ownership
855 Odum Highway Jesup, GA	Branch	Owned
306 Hillcrest Drive Laurens, SC	Branch	Owned
1691 Lions Club Road Madison, GA	Branch	Owned
1880 Joe S. Jeffords Highway Orangeburg, SC	Branch	Owned
1321 Springdale Road Rock Hill, SC	Branch	Owned
2630 Colonel Thomson Highway St. Matthews, SC	Branch	Owned
101 North Town Drive Spartanburg, SC	Branch	Owned
40 South Main Street Statesboro, GA	Branch	Owned
702 Kate Lane Summerville, SC	Branch	Owned
302 Mims Road Sylvania, GA	Branch	Owned
620 North Church Street Thomaston, GA	Branch	Owned
314 Commerce Way Vidalia, GA	Branch	Owned
529 Bells Highway Walterboro, SC	Branch	Owned

The Association currently owns a 2 acre lot on Fairfax Highway in Allendale, South Carolina.

One of the former administrative offices located at 1884 Joe S. Jeffords Highway in Orangeburg, South Carolina, is now vacant as administrative staff have retired or been relocated. The Board of Directors is currently considering the next use, if any, for this building.

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

The following represents certain information regarding the senior officers of the Association as of December 31, 2022:

Name	Current Position	Date Started in Current Position	Previous Position(s) During Last Five Years
Pat Calhoun	Chief Executive Officer	September 2016	
Stacy Anderson	Chief Credit Officer	October 2016	
Jennifer Davis	Chief Administrative & Technology Officer	January 2021	Chief Information Officer Director of Information Technology
Bo Fennell	Chief Financial Officer	January 2018	Chief Financial Officer Altamaha Bank and Trust
Sharmequa Franklin	Chief Human Resources Officer	January 2018	Organizational Development & Talent Management Manager MidAtlantic Farm Credit
Nick Martin	Chief Lending Officer	October 2021	Regional Business Development Manager
Bob Mikell	General Counsel	July 2019	Attorney Brown Rountree PC Senior Attorney
Debbie Sikes	Chief Compliance & Risk Officer	October 2017	Loan Officer – Analyst Compliance Officer
Christian Taylor	Director of Secondary Market & Financially Related Services	August 2018	Leasing Agent

The majority business experience for the past five years for the senior officers is with the Farm Credit System. Other business or organizational interests are as follows:

- **Pat Calhoun** serves on the advisory board of the Palmetto Agribusiness Council (promotes agriculture) and the advisory board of the University of Georgia's Advancing Georgia's Leaders in Agriculture and Forestry (leadership training program). He also serves on the Executive Committee of the AgFirst Farm Credit Council (legislative support) and as an Executive Representative on the AgFirst Farm Credit Legislative Advisory Committee (legislative support). Mr. Calhoun serves on the AgFirst Plan Sponsor Committee (benefits).

- **Jennifer Davis** serves as the Race Committee Chair for Open Hearts Community Mission (charity), is a committee member for Rockin' Out Alzheimer's Foundation (charity), and is a board member of the Georgia Southern Alumni Board (promotes education). Ms. Davis is also a minority shareholder in Sugar Magnolia Bakery & Café (restaurant).

- **Sharmequa Franklin** is the Owner of The Artsy Girl, LLC (art and handmade jewelry).

- **Bob Mikell** serves on the advisory board for the Statesboro Family YMCA (non-profit) and is a board member for the Georgia Southern University Housing Foundation (non-profit). Mr. Mikell also serves as the Chairman of the Board of Trustees for Pittman Park United Methodist Church (religious).

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

Individual or Number in Group	Year	Annual Salary	Annual Bonus	Deferred Compensation	Change in Pension Value[a]	Perq./ Other[b]	Total
CEO							
Pat Calhoun	2022	$ 426,200	$ 142,777	$ 8,586	$ (315,287)	$ 15,928	$ 278,204
Pat Calhoun	2021	$ 395,211	$ 165,309	$ 7,783	$ 1,107,676	$ 16,703	$ 1,692,682
Pat Calhoun	2020	$ 380,015	$ 161,725	$ 7,339	$ 367,240	$ 23,670	$ 939,989
11	2022	$ 1,457,519	$ 1,623,992	$ –	$ (810,570)	$ 125,745	$ 2,396,686
13	2021	$ 1,553,142	$ 2,009,611	$ 16,000	$ 179,991	$ 215,381	$ 3,974,125
11	2020	$ 1,345,950	$ 1,384,085	$ 29,500	$ 1,167,191	$ 139,036	$ 4,065,762

(a) The changes in pension values as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

(b) The Perquisites/Other amount disclosed in the above chart can include club memberships, automobile allowance, relocation assistance, spousal expenses, payout of accrued annual leave, employer-match/employer-paid 401(k) contributions, and life insurance.

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.

All employees including the CEO and senior officers have defined duty statements and standards of performance. These standards are reviewed at least annually and graded on a one to five scale, with five indicating “Performance over a sustained period consistently far exceeds standards and expectations for all position responsibilities.” Annually, supervisors evaluate performance and a merit increase is rewarded, if performance score warrants.

In addition to a base salary, deferred compensation and perquisites/other, senior officers earn additional compensation under an annual incentive plan as indicated in the “Bonus” column in the chart above. The Association’s annual incentive plan is designed to motivate employees to exceed the business plan goals during the fiscal year. These goals include Association income, credit quality, credit administration, loan volume, delinquencies, and other key success measurements. Income to pay the incentive payments is derived from profits over and above those budgeted in the board-approved business plan for 2022. Full-time employees are covered by the annual incentive plan which runs for the full calendar year and employees can earn between 0 and 30 percent of base salary. An estimated incentive was accrued monthly prior to December 31, 2022 and final calculations and payments were made in January 2023. Employees that are not eligible for merit increases based upon individual performance are not eligible for incentive. A copy of the incentive plan is available to stockholders upon request.

Certain additional bonuses have been approved by the Board based on either the overall performance of the Association, or particular ideas or performance leading to sustained increases in profits to the stockholders. Bonuses are shown in the year earned, which may be different than the year of payment.

Selected staff members participate in a long-term incentive program. The long-term incentive program was established by the Board in fiscal year 2006 and measures performance at the end of each three (3) year period. Goals are set annually by the Executive & Compensation Committee. Payments under the long-term incentive program can range from 0 to 15 percent. Goals include reaching key financial ratios and building and maintaining the Association’s patronage program. Estimated long-term incentive payments were accrued monthly. The final calculations and payments were made in January 2023. The purpose of the long-term incentive program is to retain key staff and reward them for reaching established goals.

Selected staff members may also participate in a defined contribution benefit plan separate from the Association’s existing 401(k) plan. The defined contribution plan has requirements for vesting and is reflected in the Deferred Compensation column above.

The overall compensation program of the Association is designed to reward performance that exceeds expectations set by both managers and by the Board of Directors. The results outlined in the compensation table reflect the success the Association had in 2022 in increasing loan volume, generating significant earnings and maintaining a strong, consistent patronage program.

The chart below details the value of accumulated benefits on a present value basis for the CEO and senior officers and other highly compensated employees under the two retirement plans offered by the Association. Reference Note 2, *Summary of Significant Accounting Policies,* for additional information about these multiemployer pension plans.

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:					
Pat Calhoun	2022	AgFirst Retirement Plan	35.67	$ 2,863,211	$ –
	2022	Supplemental Executive Retirement Plan		984,470	–
				$ 3,847,681	$ –
Senior Officers and Highly Compensated Employees:					
3 Officers, Excluding CEO*	2022	AgFirst Retirement Plan	24.61*	$ 2,342,527	$ –
				$ 2,342,527	$ –

**Represents the number and the average years of credited service for those eligible to participate in the AgFirst Retirement Plan.*

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.

The discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa.

The life expectancy actuarial assumption was updated at December 31, 2022 to reflect recent mortality studies indicating longer life spans. This change further increased pension values as the benefit payments are expected to be made for a longer time span.

There was a significant increase in the discount rate between December 31, 2021 to December 31, 2022. Variances from the previous year are due to the impact of the discount rate on the plan. Other actuarial assumptions are updated periodically. At December 31, 2022, the mortality and mortality improvement assumptions were updated to reflect recent mortality studies. These changes resulted in a decrease in the Retirement Plan present values.

All employees are eligible to receive awards based on years of service on five year, or multiple of five year anniversaries. A copy of this plan is available to stockholders upon request.

Directors

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $197,678 for 2022, $111,065 for 2021, and $105,655 for 2020.

The Association provides iPads to directors for data and information access to Association financial reports and other material through a secure portal. The expense for the iPads and network access is included in the other related expenses amount above.

Subject to approval by the board, the Association may allow directors honoraria of $800 for attendance at meetings, committee meetings, or special assignments. In cases when a video or teleconference is held in lieu of an onsite meeting to take up the regularly scheduled business of a committee, an honoraria of $400 will be paid. Directors are also allowed travel honoraria of $400 depending upon meeting location relative to their headquarters. Directors are paid a monthly retainer fee of $1,000 each. The retainer for the Chairman of the Board and Chairman of the Audit Committee was $1,200 per month. The retainer of the Vice-Chairman of the Board was $1,150 per month.

There was no noncash compensation paid to directors in 2022.

The following chart details the year the director began serving on the board and the current term expiration.

Director	Original Year of Election or Appointment	Current Term Expiration	Days in Board Meetings	Comp. for Board Meetings & Retainer	Days in Committee Meetings	Days in Other Activities	Comp. for Committee and other Activities	Total All Compensation
H. Frank Ables, Jr.	2015	2023	10	$20,350	18	12	$23,600	$43,950
Sean F. Lennon	2017	2025	10	20,850	18	15	24,400	45,250
Arthur Q. Black	1995	2025	11	20,000	9	11	12,800	32,800
David V. Cantley	2020	2023	11	18,400	7	7	13,200	31,600
Lee H. DeLoach	2002	2024	11	19,200	7	12	17,600	36,800
Tara H. Green	2021	2026	11	18,400	6	4	10,400	28,800
Wesley C. Ham	2022	2025	11	19,600	9	8	12,800	32,400
Phillip E. Love, Jr.*	2014	2025	10	19,200	11	8	12,800	32,000
Jonathan L. Mann	2021	2024	11	19,200	7	12	18,000	37,200
J. Jay Peay	2015	2023	11	18,800	9	10	15,200	34,000
William T. Robinson	2011	2024	11	18,800	18	13	11,600	30,400
Pete Wall	2021	2026	11	20,000	9	10	15,200	35,200
Hugh E. Weathers	1998	2023	11	19,400	17	10	19,600	39,000
David H. Womack*	1991	2023	10	20,800	11	14	19,200	40,000
TOTAL COMPENSATION				$273,000			$226,400	$499,400

****Serves as Outside Director***

Days in Board Meetings and Days in Committee meetings may include participation in conference calls.

Days in Other Activities includes days spent attending other Farm Credit related functions or special assignments.

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

H. Frank Ables, Jr., Chairman is a poultry, cattle, corn, wheat, and soybean producer. He is the Owner and Operator of Chikamoo Farms and Majority Partner of Chikamoo, LLC (real estate holdings) for the past 30 years in South Carolina. He serves as an alternate member of the AgFirst Legislative Advisory Committee (legislative support for agriculture). Mr. Ables serves as the Chairman of the Adhoc Committee, Co-Chairman of the Steering Committee, and Vice-Chairman of the Executive & Compensation Committee. He serves as an ad hoc member of all other Board Committees at AgSouth Farm Credit.

Sean F. Lennon, Vice-Chairman is a fruit farmer, landlord, and is the President of Fitzgerald Fruit Farms, LLC (fruit farm), Fitzgerald Packing & Storage, LLC (commercial fruit packing), Fitzgerald Fruit Sourcing, LLC (produce sourcing), I'll Never Get to Sea, LLC (investment company), Southern Tides on the Cape, LLC (investment company), Sailor's Landing, LLC (investment company), Salt Water Breeze on the Cape, LLC (investment company), Lennon Real Properties, LLC (land and assets), Lennon Business Holdings, LLC (land and assets), Warm Springs Winery, LLC (wine), and The Shed at Fitzgerald Farms, LLC (agritourism and retail sales) in Georgia. Mr. Lennon is also President of the National Peach Council (agricultural organization) and is on the board of the Meriwether County Farm Bureau (agricultural organization). He also serves as a board member for the Georgia Peach Council (agricultural organization). Mr. Lennon is a member of the Georgia Agribusiness Council (agricultural organization), Georgia Grown (agricultural organization), Georgia Farm Bureau Certified Farm Markets (agriculture organization), and the Georgia Fruit & Vegetable Growers Association (agricultural organization). He is a representative on the AgFirst District Advisory Committee (agriculture organization). Mr. Lennon serves as the Chairman of the Executive & Compensation Committee. He is a member of the Risk Management Committee, Steering Committee, and the Adhoc Committee.

Georgia Directors

Lee H. DeLoach is a retired Probate Court Judge for Bulloch County, Georgia, a timber farmer, beef cattle and hay producer, and landlord. Mr. DeLoach serves as the Vice-Chairman of the Governance & Ethics Committee.

Tara H. Green is a Licensed Veterinary Technician and Co-Owner of The Flower Shack (agritourism) and S&T Green Gate Farm, LLC a poultry, beef, flower, hay, and agritourism operation. Mrs. Green is also the Secretary of Green Tree Service, LLC (tree care service). Mrs. Green previously worked as a Veterinary Technician at Southside Animal Hospital. Mrs. Green is a director of the Mid-Georgia Cattlemen's Association (promotion of agriculture) and is a State and County District Chair for the Georgia Farm Bureau Young Farmers and Ranchers Program (promotion of agriculture). Mrs. Green also serves as an advisor for the University of Georgia Cooperative Extension Service (agricultural education). She serves on the Governance & Ethics Committee.

Wesley C. Ham is the Owner and President of W.C. Ham Inc. which is a contract poultry producer, alligator producer, and provides custom hire farm services including spreading, drilling, and equipment rental to local businesses and individuals. Mr. Ham is Part Owner and Managing Partner of GA-IA Marketing Group LLC that markets and manages data of cattle across three states. As the Manager of Sleepy Creek Farms, Mr. Ham assists with the day-to-day operations with a specialty in forage production and mechanical maintenance. He serves as the Chairman of the Young Farmer Committee for the Monroe County Farm Bureau. Mr. Ham serves on the Audit Committee.

Jonathan L. Mann is a row crop and poultry farmer. He is the Owner and Operator of Jonathan Mann Farms. He is the Pastor of Surrency Baptist Church (religious) and is a licensed Georgia Real Estate Agent. Mr. Mann serves on the Risk Management Committee and Adhoc Committee.

Pete Wall and his wife Gina are the Owners of Pete Wall Family Farm. They raise beef cattle and show lambs. Mr. Wall is also an evangelist. He serves on the Audit Committee as Vice-Chairman.

David H. Womack is a Certified Public Accountant and President of the firm, David H. Womack & Company, PC, CPAs (accounting firm). Mr. Womack serves as Vice-President of the Board of Trustees for Brewton Cemetery, Inc. (perpetual care, non-profit), and as Finance Chairman for Claxton First Church (religious). Mr. Womack is as an Outside Director serving on the Executive & Compensation Committee and as Chairman of the Audit Committee.

South Carolina Directors

Arthur Q. Black is a peach, strawberry, tomato, gourd, pumpkin, and hay producer and owns Black's Peaches (farming and agritourism). He serves on the boards of the York County Farm Bureau (agricultural organization) and the South Carolina Farm Bureau (agricultural organization). Mr. Black also serves as President on the board of Farmers Mutual Insurance (insurance) and is a member of the York Investment Association (investment club). He is a Trustee at First Presbyterian Church (religious) in York, South Carolina. Mr. Black serves as the alternate member on the AgFirst District Advisory Council (agricultural organization) for the Association. He also serves on the Audit Committee.

David V. Cantley is a cattle, timber, hay, and row crop farmer. Mr. Cantley is the Owner of David Cantley Farms. He is the Co-Owner and Manager of Holly Hill Farm Center, Inc. (agriculture supplies). He is the Co-Owner of Southern Crop Solutions (agricultural services) and C&H Farms. Mr. Cantley serves as a board member for First National Bank of South Carolina (banking) where he serves on the Audit Committee. He serves on the board for Holly Hill United Methodist Church (religious). He serves as the Association representative to the AgFirst Farm Credit Bank (agricultural lending) Nominating Committee. Mr. Cantley is the Vice-Chairman of the Risk Management Committee.

Phillip E. Love, Jr. is the Chairman of the Board of Directors of Amerisure Mutual Insurance Company (insurance) where he serves on the Compensation and Governance Committee and the Audit Committee. Mr. Love serves as the Vice-Chairman of the Board for the South Carolina Medical Malpractice Association (insurance), where he also serves as the Chairman of the Claims Committee. He serves on the Reinsurance Committee of the South Carolina Windstorm and Hail Underwriting Association (insurance). Mr. Love serves as an Outside Director and serves as the at-large member of the Association's Executive & Compensation Committee. He also serves on the Audit Committee.

J. Jay Peay is a Certified Public Accountant and President and Owner of Peay & Associates, LLC (accounting firm) and President and Owner of SwaimBrown Wealth Management, LLC (investment consulting and advising) where he is a Registered Investment Advisor. He is a Partner in Enoree Holdings, LLC (investment holding company) and Bush River Realty, LLC (real estate). For the past five years, Mr. Peay has been employed as a Certified Public Accountant. Mr. Peay manages personal and family property that primarily produces timber. He is a founding member of the Laurens County Cancer Association (non-profit organization) where he serves as Treasurer. He serves as the alternate member of the AgFirst Nominating Committee (agricultural organization). Mr. Peay serves on the Adhoc Committee, Executive & Compensation Committee, and is the Chairman of the Risk Management Committee.

William T. Robinson is a row crop, cattle, and timber farmer. Mr. Robinson is the Owner and Operator of Robinson Family Farm and is the Owner of MMR Consultants, LLC (consulting). Prior to starting MMR Consultants, LLC, Mr. Robinson was employed by The SEFA Group (engineering and construction) and served as Executive Director within the SEFA Industrial Solutions division. Mr. Robinson is retired from South Carolina's state owned electric and water utility. He is a member of the South Carolina Farm Bureau (insurance) and serves on the Tri-County Electric Cooperative Board (utility provider). Mr. Robinson serves on the Board of Directors of the AgFirst Farm Credit Bank (agricultural lending). He serves on the Farm Credit System Audit Committee, which was established by the Federal Farm Credit Banks Funding Corporation. Mr. Robinson serves as the Chairman of the Governance & Ethics Committee. He also serves on the Executive & Compensation, Steering, and Adhoc Committees for the Association.

Hugh E. Weathers is a row crop farmer, a farm property landlord, and serves the state of South Carolina as Commissioner of Agriculture. Mr. Weathers is the Owner of Weathers Farms, Inc. (row crops and farm property landlord), Owner of Weathers Trucking, Inc. (bulk milk delivery), Partner in Circle W Farms (row crops), and a Member of WB Bowman, LLC (land holdings). He serves on the boards of Southern United States Trade Association (agricultural exporting), South Carolina Poultry Federation (promotes poultry industry), the Southern Association of State Departments of Agriculture (agricultural organization), Catch the Vision Ministry (foreign ministry organization), and the South Carolina Department of Commerce Coordinating Council (economic development). He is a member of the AgFirst Legislative Advisory Committee (legislative support for agriculture). Mr. Weathers serves on the Executive & Compensation Committee, Steering Committee, and the Governance & Ethics Committee.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

From time to time, the Association may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, the Association is not aware of any such actions that would have a material impact on our financial condition and there were no matters which came to the attention of management or the Board of Directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditors

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

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

Independent Auditors		**2022**
PricewaterhouseCoopers, LLP		
Audit services	$	103,150*
Total	$	103,150*

Audit services were for the annual audit of the Consolidated Financial Statements.

**Professional fees in the amount of $31,310 related to the audit of the December 31, 2022 financial statements were not paid until January 2023.*

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers, LLP 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 1-912-489-4842, ext. 2674, or writing Bo Fennell, AgSouth Farm Credit, ACA, P.O. Box 718, Statesboro, GA 30459 or accessing the website, ***www.agsouthfc.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report 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 ensure that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

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

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

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's 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 Reports 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.

Reports of suspected or actual wrongdoings involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (NAVEX Global) at 1-833-220-9744 or at ***www.agsouth.ethicspoint.com***.

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 AgSouth Farm Credit, ACA (Association), and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

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

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 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 PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from AgSouth Farm Credit, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2022. The foregoing report is provided by the following independent directors, who constitute the Committee:

David H. Womack
Chairman of the Audit Committee

Members of Audit Committee

Arthur Q. Black
Wesley C. Ham
Phillip E. Love, Jr.
Pete Wall

March 9, 2023

Report of Independent Auditors

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

Opinion

We have audited the accompanying consolidated financial statements of AgSouth Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2022, 2021 and 2020, and the related consolidated statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2022, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

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

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2022 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 9, 2023

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2022	2021	2020
Assets			
Cash	**$ 665**	$ 689	$ 133
Investments in debt securities:			
Held to maturity (fair value of $3,352, $4,061, and $4,448, respectively)	**3,548**	3,756	3,950
Loans	**2,082,158**	2,031,671	1,921,622
Allowance for loan losses	**(14,280)**	(17,712)	(17,357)
Net loans	**2,067,878**	2,013,959	1,904,265
Loans held for sale	**815**	4,236	3,274
Accrued interest receivable	**17,902**	15,555	16,711
Equity investments in other Farm Credit institutions	**29,476**	20,688	22,469
Premises and equipment, net	**19,757**	20,717	21,309
Other property owned	**—**	215	1,170
Accounts receivable	**15,715**	36,947	32,421
Other assets	**2,218**	2,711	2,129
Total assets	**$ 2,157,974**	$ 2,119,473	$ 2,007,831
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,643,799**	$ 1,617,876	$ 1,538,795
Accrued interest payable	**4,593**	3,371	3,363
Patronage refunds payable	**33,187**	32,431	12,501
Accounts payable	**3,941**	3,067	1,873
Other liabilities	**14,210**	15,224	14,798
Total liabilities	**1,699,730**	1,671,969	1,571,330
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**11,243**	11,107	10,626
Retained earnings			
Allocated	**101,191**	121,081	139,757
Unallocated	**346,152**	317,250	286,811
Accumulated other comprehensive income (loss)	**(342)**	(1,934)	(693)
Total members' equity	**458,244**	447,504	436,501
Total liabilities and members' equity	**$ 2,157,974**	$ 2,119,473	$ 2,007,831

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	**$ 115,066**	$ 106,718	$ 107,176
Investments	**252**	266	296
Total interest income	**115,318**	106,984	107,472
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**46,232**	39,349	42,586
Total interest expense	**46,232**	39,349	42,586
Net interest income	**69,086**	67,635	64,886
Provision for (reversal of) allowance for loan losses	**(3,788)**	771	1,687
Net interest income after provision for (reversal of) allowance for loan losses	**72,874**	66,864	63,199
Noninterest Income			
Loan fees	**4,244**	6,023	5,285
Fees for financially related services	**4,003**	3,377	2,649
Patronage refunds from other Farm Credit institutions	**25,248**	36,706	32,131
Gains (losses) on sales of rural home loans, net	**2,797**	3,335	2,533
Gains (losses) on sales of premises and equipment, net	**306**	188	175
Gains (losses) on other transactions	**(1,514)**	389	45
Insurance Fund refunds	**—**	—	339
Other noninterest income	**586**	265	1,624
Total noninterest income	**35,670**	50,283	44,781
Noninterest Expense			
Salaries and employee benefits	**31,654**	33,212	30,111
Occupancy and equipment	**2,054**	1,956	2,344
Insurance Fund premiums	**2,971**	2,298	1,306
Purchased services	**2,585**	1,465	1,834
Data processing	**497**	445	406
Other operating expenses	**6,911**	5,640	4,878
(Gains) losses on other property owned, net	**(23)**	(198)	148
Total noninterest expense	**46,649**	44,818	41,027
Income before income taxes	**61,895**	72,329	66,953
Provision (benefit) for income taxes	**(8)**	78	(1)
Net income	**$ 61,903**	$ 72,251	$ 66,954
Other comprehensive income net of tax			
Employee benefit plans adjustments	**1,592**	(1,241)	(161)
Comprehensive income	**$ 63,495**	$ 71,010	$ 66,793

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	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2019	$ 10,012	$ 131,801	$ 269,553	$ (532)	$ 410,834
Comprehensive income			66,954	(161)	66,793
Capital stock/participation certificates issued/(retired), net	614				614
Patronage distribution					
Cash			(20,000)		(20,000)
Nonqualified allocated retained earnings		28,001	(28,001)		—
Retained earnings retired		(21,235)			(21,235)
Patronage distribution adjustment		1,190	(1,695)		(505)
Balance at December 31, 2020	$ 10,626	$ 139,757	$ 286,811	$ (693)	$ 436,501
Comprehensive income			72,251	(1,241)	71,010
Capital stock/participation certificates issued/(retired), net	481				481
Patronage distribution					
Cash			(42,062)		(42,062)
Retained earnings retired		(18,408)			(18,408)
Patronage distribution adjustment		(268)	250		(18)
Balance at December 31, 2021	$ 11,107	$ 121,081	$ 317,250	$ (1,934)	$ 447,504
Comprehensive income			**61,903**	**1,592**	**63,495**
Capital stock/participation certificates issued/(retired), net	**136**				**136**
Patronage distribution					
Cash			**(33,000)**		**(33,000)**
Retained earnings retired		**(19,890)**			**(19,890)**
Patronage distribution adjustment			**(1)**		**(1)**
Balance at December 31, 2022	**$ 11,243**	**$ 101,191**	**$ 346,152**	**$ (342)**	**$ 458,244**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2022	2021	2020
Cash flows from operating activities:			
Net income	**$ 61,903**	$ 72,251	$ 66,954
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,615**	1,669	1,365
Amortization (accretion) of net deferred loan costs (fees)	**661**	647	737
Premium amortization (discount accretion) on investments in debt securities	**(1)**	(1)	(1)
Provision for (reversal of) allowance for loan losses	**(3,788)**	771	1,687
(Gains) losses on other property owned	**(47)**	(220)	86
(Gains) losses on sales of premises and equipment, net	**(306)**	(188)	(175)
(Gains) losses on sales of rural home loans, net	**(2,797)**	(3,335)	(2,533)
(Gains) losses on other transactions	**1,514**	(389)	(45)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(250,841)**	(310,920)	(260,162)
Proceeds from sales of loans held for sale, net	**257,059**	313,293	260,603
(Increase) decrease in accrued interest receivable	**(2,347)**	1,156	2,116
(Increase) decrease in accounts receivable	**21,232**	(4,526)	(10,301)
(Increase) decrease in other assets	**493**	(582)	43
Increase (decrease) in accrued interest payable	**1,222**	8	(715)
Increase (decrease) in accounts payable	**874**	1,194	152
Increase (decrease) in other liabilities	**(936)**	(426)	984
Total adjustments	**23,607**	(1,849)	(6,159)
Net cash provided by (used in) operating activities	**85,510**	70,402	60,795
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	**209**	195	1,061
Net (increase) decrease in loans	**(50,722)**	(110,989)	(88,405)
(Increase) decrease in equity investments in other Farm Credit institutions	**(8,788)**	1,781	2,058
Purchases of premises and equipment	**(671)**	(1,097)	(1,530)
Proceeds from sales of premises and equipment	**322**	208	363
Proceeds from sales of other property owned	**192**	1,052	3,214
Net cash provided by (used in) investing activities	**(59,458)**	(108,850)	(83,239)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**25,923**	79,081	56,881
Capital stock and participation certificates issued/(retired), net	**136**	481	614
Patronage refunds and dividends paid	**(32,245)**	(22,150)	(19,536)
Retained earnings retired	**(19,890)**	(18,408)	(21,235)
Net cash provided by (used in) financing activities	**(26,076)**	39,004	16,724
Net increase (decrease) in cash	**(24)**	556	(5,720)
Cash, beginning of period	**689**	133	5,853
Cash, end of period	**$ 665**	$ 689	$ 133
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 148**	$ 969	$ 1,040
Receipt of property in settlement of loans	**78**	846	1,491
Estimated cash dividends or patronage distributions declared or payable	**33,000**	42,062	20,000
Employee benefit plans adjustments (Note 9)	**(1,592)**	1,241	161
Supplemental information:			
Interest paid	**$ 45,010**	$ 39,341	$ 43,301
Taxes (refunded) paid, net	**—**	46	16

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:** AgSouth Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the states of Georgia and South Carolina in the following counties:

Georgia: Counties of Appling, Atkinson, Bacon, Brantley, Bryan, Bulloch, Butts, Camden, Candler, Carroll, Charlton, Chatham, Clayton, Clinch, Coffee, Coweta, DeKalb, Douglas, Effingham, Emanuel, Evans, Fayette, Fulton, Glynn, Greene, Gwinnett, Haralson, Harris, Heard, Henry, Jasper, Jeff Davis, Jenkins, Lamar, Liberty, Long, McIntosh, Meriwether, Monroe, Montgomery, Morgan, Muscogee, Newton, Oconee, Pierce, Pike, Putnam, Rockdale, Screven, Spalding, Talbot, Tattnall, Toombs, Troup, Upson, Walton, Ware, Wayne, and Wheeler.

South Carolina: Counties of Abbeville, Aiken, Allendale, Anderson, Bamberg, Barnwell, Beaufort, Berkeley, Calhoun, Charleston, Cherokee, Chester, Colleton, Dorchester, Edgefield, Fairfield, Greenville, Greenwood, Hampton, Jasper, Kershaw, Lancaster, Laurens, Lexington, McCormick, Newberry, Oconee, Orangeburg, Pickens, Richland, Saluda, Spartanburg, Union, and York.

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

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

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

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

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

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

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

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

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

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

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of farm or 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 $387 in 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 five to forty 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.

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

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

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

Other Investments
As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within other 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.

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

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

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

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

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 advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

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

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

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

Additional information may be found in Note 9.

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

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

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

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

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

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

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 also does not generally incur costs to obtain contracts. Revenue is recognized to reflect the transfer of goods and services to customers in an amount equal to the consideration the Association receives or expects to receive.

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

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, 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 US 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	2021	2020
Real estate mortgage	$ 1,637,408	$ 1,563,155	$ 1,457,592
Production and intermediate-term	296,885	324,964	326,901
Processing and marketing	21,079	23,743	24,636
Farm-related business	21,789	19,427	24,650
Rural residential real estate	104,842	100,215	87,663
Other (including Mission Related)	155	167	180
Total loans	$ 2,082,158	$ 2,031,671	$ 1,921,622

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 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	$ 9,664	$ 124,009	$ 313	$ 7,516	$ –	$ –	$ 9,977	$ 131,525
Production and intermediate-term	5,239	75,886	629	–	3,584	–	9,452	75,886
Processing and marketing	1,716	112,161	–	19,370	–	–	1,716	131,531
Farm-related business	2,993	10,500	–	–	–	–	2,993	10,500
Total	$ 19,612	$ 322,556	$ 942	$ 26,886	$ 3,584	$ –	$ 24,138	$ 349,442

	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	$ 9,751	$ 145,471	$ 336	$ 8,053	$ –	$ –	$ 10,087	$ 153,524
Production and intermediate-term	3,009	32,090	1,231	–	2,523	–	6,763	32,090
Processing and marketing	–	124,085	181	24,206	–	–	181	148,291
Farm-related business	915	10,018	–	–	–	–	915	10,018
Total	$ 13,675	$ 311,664	$ 1,748	$ 32,259	$ 2,523	$ –	$ 17,946	$ 343,923

	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	$ 9,908	$ 143,574	$ 365	$ 8,590	$ –	$ –	$ 10,273	$ 152,164
Production and intermediate-term	1,402	157,857	1,417	–	2,907	–	5,726	157,857
Processing and marketing	–	104,354	251	26,056	–	–	251	130,410
Farm-related business	1,143	10,709	–	–	–	–	1,143	10,709
Total	$ 12,453	$ 416,494	$ 2,033	$ 34,646	$ 2,907	$ –	$ 17,393	$ 451,140

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	98.28%	98.59%	97.59%
OAEM	0.86	0.50	1.43
Substandard/doubtful/loss	0.86	0.91	0.98
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	97.43%	96.61%	96.16%
OAEM	0.59	1.95	2.28
Substandard/doubtful/loss	1.98	1.44	1.56
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	98.90%	95.02%	94.04%
OAEM	1.10	–	–
Substandard/doubtful/loss	–	4.98	5.96
	100.00%	100.00%	100.00%

	December 31,		
	2022	2021	2020
Farm-related business:			
Acceptable	95.41%	87.52%	86.91%
OAEM	2.25	2.84	6.96
Substandard/doubtful/loss	2.34	9.64	6.13
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	98.80%	99.03%	98.45%
OAEM	0.68	0.42	0.92
Substandard/doubtful/loss	0.52	0.55	0.63
	100.00%	100.00%	100.00%
Other (including Mission Related):			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	98.16%	98.15%	97.20%
OAEM	0.83	0.75	1.61
Substandard/doubtful/loss	1.01	1.10	1.19
	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	$ 9,475	$ 5,982	$ 15,457	$ 1,633,946	$ 1,649,403
Production and intermediate-term	955	1,747	2,702	299,343	302,045
Processing and marketing	39	–	39	21,239	21,278
Farm-related business	190	333	523	21,440	21,963
Rural residential real estate	1,700	49	1,749	103,446	105,195
Other (including Mission Related)	–	–	–	155	155
Total	$ 12,359	$ 8,111	$ 20,470	$ 2,079,569	$ 2,100,039

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	$ 6,001	$ 3,612	$ 9,613	$ 1,564,204	$ 1,573,817
Production and intermediate-term	1,987	2,057	4,044	325,190	329,234
Processing and marketing	181	–	181	23,722	23,903
Farm-related business	160	498	658	18,930	19,588
Rural residential real estate	675	56	731	99,763	100,494
Other (including Mission Related)	–	–	–	169	169
Total	$ 9,004	$ 6,223	$ 15,227	$ 2,031,978	$ 2,047,205

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	$ 9,385	$ 3,069	$ 12,454	$ 1,456,362	$ 1,468,816
Production and intermediate-term	1,214	2,757	3,971	327,676	331,647
Processing and marketing	421	–	421	24,467	24,888
Farm-related business	507	822	1,329	23,513	24,842
Rural residential real estate	774	69	843	87,092	87,935
Other (including Mission Related)	–	–	–	181	181
Total	$ 12,301	$ 6,717	$ 19,018	$ 1,919,291	$ 1,938,309

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

	December 31, 2022	2021	2020
Nonaccrual loans:			
Real estate mortgage	$ 8,622	$ 6,919	$ 8,659
Production and intermediate-term	5,087	3,475	5,119
Processing and marketing	–	880	–
Farm-related business	491	691	1,292
Rural residential real estate	123	168	210
Total	$ 14,323	$ 12,133	$ 15,280
Accruing restructured loans:			
Real estate mortgage	$ 5,401	$ 5,733	$ 4,142
Production and intermediate-term	1,291	918	853
Farm-related business	91	–	–
Rural residential real estate	17	29	141
Total	$ 6,800	$ 6,680	$ 5,136
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 21,123	$ 18,813	$ 20,416
Other property owned	–	215	1,170
Total nonperforming assets	$ 21,123	$ 19,028	$ 21,586
Nonaccrual loans as a percentage of total loans	0.69%	0.60%	0.80%
Nonperforming assets as a percentage of total loans and other property owned	1.01%	0.94%	1.12%
Nonperforming assets as a percentage of capital	4.61%	4.25%	4.95%

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

	December 31, 2022	December 31, 2021	December 31, 2020
Impaired nonaccrual loans:			
Current as to principal and interest	$ 5,097	$ 3,724	$ 6,510
Past due	9,226	8,409	8,770
Total	$ 14,323	$ 12,133	$ 15,280
Impaired accrual loans:			
Restructured	$ 6,800	$ 6,680	$ 5,136
90 days or more past due	–	–	–
Total	$ 6,800	$ 6,680	$ 5,136
Total impaired loans	$ 21,123	$ 18,813	$ 20,416
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.

Impaired Loans	December 31, 2022 Recorded Investment	December 31, 2022 Unpaid Principal Balance	December 31, 2022 Related Allowance	Year Ended December 31, 2022 Average Impaired Loans	Year Ended December 31, 2022 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	3,268	3,330	1,150	2,749	248
Farm-related business	135	312	75	114	10
Rural residential real estate	–	–	–	–	–
Total	$ 3,403	$ 3,642	$ 1,225	$ 2,863	$ 258
With no related allowance for credit losses:					
Real estate mortgage	$ 14,023	$ 16,166	$ –	$ 11,797	$ 1,064
Production and intermediate-term	3,110	4,316	–	2,617	236
Farm-related business	447	838	–	376	34
Rural residential real estate	140	146	–	117	10
Total	$ 17,720	$ 21,466	$ –	$ 14,907	$ 1,344
Total:					
Real estate mortgage	$ 14,023	$ 16,166	$ –	$ 11,797	$ 1,064
Production and intermediate-term	6,378	7,646	1,150	5,366	484
Farm-related business	582	1,150	75	490	44
Rural residential real estate	140	146	–	117	10
Total	$ 21,123	$ 25,108	$ 1,225	$ 17,770	$ 1,602

Impaired Loans	December 31, 2021 Recorded Investment	December 31, 2021 Unpaid Principal Balance	December 31, 2021 Related Allowance	Year Ended December 31, 2021 Average Impaired Loans	Year Ended December 31, 2021 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	297	317	94	340	24
Processing and marketing	–	–	–	–	–
Farm-related business	157	167	25	180	12
Rural residential real estate	–	–	–	–	–
Total	$ 454	$ 484	$ 119	$ 520	$ 36
With no related allowance for credit losses:					
Real estate mortgage	$ 12,652	$ 15,001	$ –	$ 14,475	$ 1,008
Production and intermediate-term	4,096	6,189	–	4,686	326
Processing and marketing	880	905	–	1,008	70
Farm-related business	534	1,073	–	611	43
Rural residential real estate	197	269	–	224	15
Total	$ 18,359	$ 23,437	$ –	$ 21,004	$ 1,462
Total:					
Real estate mortgage	$ 12,652	$ 15,001	$ –	$ 14,475	$ 1,008
Production and intermediate-term	4,393	6,506	94	5,026	350
Processing and marketing	880	905	–	1,008	70
Farm-related business	691	1,240	25	791	55
Rural residential real estate	197	269	–	224	15
Total	$ 18,813	$ 23,921	$ 119	$ 21,524	$ 1,498

Impaired Loans	December 31, 2020 Recorded Investment	December 31, 2020 Unpaid Principal Balance	December 31, 2020 Related Allowance	Year Ended December 31, 2020 Average Impaired Loans	Year Ended December 31, 2020 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 169	$ 172	$ 10	$ 177	$ 12
Production and intermediate-term	556	555	79	583	39
Farm-related business	436	443	97	457	30
Rural residential real estate	–	–	–	–	–
Total	$ 1,161	$ 1,170	$ 186	$ 1,217	$ 81
With no related allowance for credit losses:					
Real estate mortgage	$ 12,632	$ 15,164	$ –	$ 13,250	$ 885
Production and intermediate-term	5,416	7,122	–	5,682	380
Farm-related business	856	1,101	–	898	60
Rural residential real estate	351	414	–	368	25
Total	$ 19,255	$ 23,801	$ –	$ 20,198	$ 1,350
Total:					
Real estate mortgage	$ 12,801	$ 15,336	$ 10	$ 13,427	$ 897
Production and intermediate-term	5,972	7,677	79	6,265	419
Farm-related business	1,292	1,544	97	1,355	90
Rural residential real estate	351	414	–	368	25
Total	$ 20,416	$ 24,971	$ 186	$ 21,415	$ 1,431

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*	Rural Residential Real Estate	Other	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2021	$ 13,525	$ 2,923	$ 399	$ 864	$ 1	$ 17,712
Charge-offs	(25)	(128)	–	(15)	–	(168)
Recoveries	102	406	2	14	–	524
Provision for loan losses	(3,348)	(174)	(57)	(209)	–	(3,788)
Balance at December 31, 2022	$ 10,254	$ 3,027	$ 344	$ 654	$ 1	$ 14,280
Balance at December 31, 2020	$ 13,021	$ 3,017	$ 538	$ 779	$ 2	$ 17,357
Charge-offs	(41)	(410)	(234)	(6)	–	(691)
Recoveries	89	168	1	17	–	275
Provision for loan losses	456	148	94	74	(1)	771
Balance at December 31, 2021	$ 13,525	$ 2,923	$ 399	$ 864	$ 1	$ 17,712
Balance at December 31, 2019	$ 11,485	$ 3,868	$ 400	$ 604	$ 4	$ 16,361
Charge-offs	(12)	(909)	(262)	(5)	–	(1,188)
Recoveries	335	157	1	4	–	497
Provision for loan losses	1,213	(99)	399	176	(2)	1,687
Balance at December 31, 2020	$ 13,021	$ 3,017	$ 538	$ 779	$ 2	$ 17,357
Allowance on loans evaluated for impairment:						
Individually	$ –	$ 1,150	$ 75	$ –	$ –	$ 1,225
Collectively	10,254	1,877	269	654	1	13,055
Balance at December 31, 2022	$ 10,254	$ 3,027	$ 344	$ 654	$ 1	$ 14,280
Individually	$ –	$ 94	$ 25	$ –	$ –	$ 119
Collectively	13,525	2,829	374	864	1	17,593
Balance at December 31, 2021	$ 13,525	$ 2,923	$ 399	$ 864	$ 1	$ 17,712
Individually	$ 10	$ 79	$ 97	$ –	$ –	$ 186
Collectively	13,011	2,938	441	779	2	17,171
Balance at December 31, 2020	$ 13,021	$ 3,017	$ 538	$ 779	$ 2	$ 17,357
Recorded investment in loans evaluated for impairment:						
Individually	$ 14,023	$ 6,378	$ 582	$ 140	$ –	$ 21,123
Collectively	1,635,380	295,667	42,659	105,055	155	2,078,916
Balance at December 31, 2022	$ 1,649,403	$ 302,045	$ 43,241	$ 105,195	$ 155	$ 2,100,039
Individually	$ 12,652	$ 4,393	$ 1,571	$ 197	$ –	$ 18,813
Collectively	1,561,165	324,841	41,920	100,297	169	2,028,392
Balance at December 31, 2021	$ 1,573,817	$ 329,234	$ 43,491	$ 100,494	$ 169	$ 2,047,205
Individually	$ 12,873	$ 5,972	$ 1,292	$ 351	$ –	$ 20,488
Collectively	1,455,943	325,675	48,438	87,584	181	1,917,821
Balance at December 31, 2020	$ 1,468,816	$ 331,647	$ 49,730	$ 87,935	$ 181	$ 1,938,309

** 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 Government-Sponsored Enterprises (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 $140,926, $156,176, and $161,334 at December 31, 2022, 2021, and 2020, respectively. Fees paid for such guarantee commitments totaled $103, $119, and $139 for 2022, 2021, and 2020, respectively. 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 tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

	Year Ended December 31, 2022				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 512	$ –	$ –	$ 512	
Production and intermediate-term	316	145	–	461	
Farm-related business	101	–	–	101	
Rural residential real estate	17	–	–	17	
Total	$ 946	$ 145	$ –	$ 1,091	
Post-modification:					
Real estate mortgage	$ 512	$ –	$ –	$ 512	$ –
Production and intermediate-term	324	153	–	477	–
Farm-related business	105	–	–	105	–
Rural residential real estate	17	–	–	17	–
Total	$ 958	$ 153	$ –	$ 1,111	$ –

	Year Ended December 31, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 485	$ 4,048	$ –	$ 4,533	
Production and intermediate-term	36	713	–	749	
Total	$ 521	$ 4,761	$ –	$ 5,282	
Post-modification:					
Real estate mortgage	$ 493	$ 4,049	$ –	$ 4,542	$ (25)
Production and intermediate-term	37	719	–	756	–
Total	$ 530	$ 4,768	$ –	$ 5,298	$ (25)

	Year Ended December 31, 2020				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 690	$ 3,782	$ –	$ 4,472	
Production and intermediate-term	–	1,879	–	1,879	
Total	$ 690	$ 5,661	$ –	$ 6,351	
Post-modification:					
Real estate mortgage	$ 697	$ 3,817	$ –	$ 4,514	$ (409)
Production and intermediate-term	–	1,926	–	1,926	(103)
Total	$ 697	$ 5,743	$ –	$ 6,440	$ (512)

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

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

	Year Ended December 31,		
Defaulted troubled debt restructurings	**2022**	**2021**	**2020**
Real estate mortgage	$ –	$ 2,066	$ 1,096
Production and intermediate-term	1,070	34	68
Farm-related business	281	–	–
Total	$ 1,351	$ 2,100	$ 1,164

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	$ 8,788	$ 9,707	$ 7,939	$ 3,387	$ 3,974	$ 3,797
Production and intermediate-term	1,818	1,602	1,753	527	684	900
Farm-related business	94	3	3	3	3	3
Rural residential real estate	17	29	141	–	–	–
Total loans	$ 10,717	$ 11,341	$ 9,836	$ 3,917	$ 4,661	$ 4,700
Additional commitments to lend	$ –	$ –	$ –			

Note 4 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At December 31, 2022, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

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

	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,548	$ –	$ (196)	$ 3,352	6.64 %

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,756	$ 305	$ –	$ 4,061	6.66 %

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,950	$ 498	$ –	$ 4,448	6.67 %

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

	December 31, 2022		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	3,548	3,352	6.64
Total	$ 3,548	$ 3,352	6.64%

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

An investment is considered impaired if its fair value is less than its cost. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. There were no securities in a continuous unrealized loss position at December 31, 2021 and 2020.

	December 31, 2022			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 3,352	$ (196)	$ –	$ –

The recording of an impairment loss is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $25,137 for 2022, $16,952 for 2021 and $18,535 for 2020. The Association owned 6.58 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 $4,339 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	$ 6,037	$ 6,037	$ 6,037
Buildings and improvements	21,431	21,384	21,287
Furniture and equipment	7,882	7,994	7,568
	35,350	35,415	34,892
Less: accumulated depreciation	15,593	14,698	13,583
Total	$ 19,757	$ 20,717	$ 21,309

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 and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 5.26 percent for LIBOR-based loans, 5.02 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 5.18 percent for Prime-based loans, and the weighted average remaining maturities were 1.8 years, 6.3 years, and 0.7 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 3.18 percent, and the weighted average remaining maturity was 12.4 years at December 31, 2022. The weighted average interest rate on all interest-bearing notes payable was 3.33 percent and the weighted average remaining maturity was 11.5 years at December 31, 2022. Approximately 92.33 percent of the Association's loan portfolio is match funded at the Bank as a fixed rate note. The remainder of the loan portfolio is funded through a variable rate note or free cash. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

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

B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of $1 thousand or 2 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:

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	4.50%	2.50%	7.00%	16.38%	14.90%	14.49%
Tier 1 Capital	6.00%	2.50%	8.50%	16.38%	14.90%	14.49%
Total Regulatory Capital	8.00%	2.50%	10.50%	22.07%	21.93%	21.81%
Permanent Capital	7.00%	–%	7.00%	21.46%	21.19%	21.03%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.00%	1.00%	5.00%	16.01%	14.36%	13.90%
URE and UREE Leverage	1.50%	–%	1.50%	15.48%	14.12%	13.76%

* *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	1,947,062	$ 9,735
C Participation Certificates/Nonvoting	No	301,534	1,508
Total Capital Stock and Participation Certificates		2,248,596	$ 11,243

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

Retained Earnings

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

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

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

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed. At December 31, 2022, allocated members' equity consisted of $101,191 of nonqualified allocated surplus.

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.

Dividends

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

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

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

Transfer

Classes A and D Preferred, Classes A, B, and C Common Stock, 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. Allocated Surplus
2. Class C Common Stock and Class C Participation Certificates
3. Classes A and B Common Stock and Class B Participation Certificates
4. 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 and B Common Stock and Class B Participation Certificates
3. Class C Common Stock and Class C Participation Certificates
4. Allocated Surplus
5. Unallocated Surplus issued after January 1, 1996 shall be distributed to all holders of Class C Common Stock and Class C Participation Certificates from January 1, 1996
6. Remaining Assets shall be distributed ratably to the holders of all classes of Stock and Participation Certificates

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

	Changes in Accumulated Other Comprehensive Income by Component *(a)*		
	For the Year Ended December 31,		
	2022	2021	2020
Employee Benefit Plans:			
Balance at beginning of period	$ (1,934)	$ (693)	$ (532)
Other comprehensive income before reclassifications	1,071	(1,265)	(176)
Amounts reclassified from AOCI	521	24	15
Net current period OCI	1,592	(1,241)	(161)
Balance at end of period	$ (342)	$ (1,934)	$ (693)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*			
	For the Year Ended December 31,			
	2022	2021	2020	Income Statement Line Item
Defined Benefit Pension Plans:				
Periodic pension costs	$ (521)	$ (24)	$ (15)	See Note 9.
Amounts reclassified	$ (521)	$ (24)	$ (15)	

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

Note 8 — Fair Value Measurement

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

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

	December 31, 2022			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 1,897	$ –	$ –	$ 1,897
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 2,178	$ 2,178
Other property owned	$ –	$ –	$ –	$ –

	December 31, 2021			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 2,354	$ –	$ –	$ 2,354
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 335	$ 335
Other property owned	$ –	$ –	$ 253	$ 253

	December 31, 2020			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 1,909	$ –	$ –	$ 1,909
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 975	$ 975
Other property owned	$ –	$ –	$ 1,369	$ 1,369

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 the Employee Retirement Income Security Act (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 $2,304 for 2022, $4,880 for 2021, and $4,068 for 2020. At December 31, 2022, 2021, and 2020, the total liability balance for the FAP 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 $882 for 2022, $850 for 2021, and $844 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 $1,550, $1,478, and $1,300 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.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2022, 2021, and 2020, $1,592, ($1,241), and ($161) have been recognized as a net credit, a net debit, and a net debit to AOCI to reflect these elements.

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

In addition to the multiemployer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of $2,652 and a net under-funded status of $2,652 at December 31, 2022. Assumptions used to determine the projected benefit obligation as of December 31, 2022 included a discount rate of 5.20 percent. The expenses of these nonqualified plans included in noninterest expenses were $675, $96, and $101 for 2022, 2021, and 2020, respectively.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with related parties, which include 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 schedules 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 $7,118. During 2022, $4,149 of new loans were made and repayments totaled $5,053. In the opinion of management, none of these loans outstanding at December 31, 2022 involved more than a normal risk of collectibility.

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, $213,803 of commitments to extend credit and no commercial letters of credit were outstanding.

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 $160 with expiration dates ranging from September 9, 2023 to October 31, 2025. The maximum potential amount of future payments that may be required under these guarantees was $160.

The total amount of reserve for unfunded commitments, which is classified in Other Liabilities in the Consolidated Balance Sheets, was $240 at December 31, 2022. During 2022, the Association recorded a provision expense reversal for unfunded commitments totaling $299.

Note 12 — Income Taxes

The provision for income taxes follows:

	Year Ended December 31,		
	2022	2021	2020
Current:			
Federal	$ (7)	$ 61	$ (1)
State	(1)	17	–
	(8)	78	(1)
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision for income taxes	$ (8)	$ 78	$ (1)

The provision for income tax differs from the amount of income tax determined by applying the applicable US statutory federal income tax rate to pretax income as follows:

	December 31, 2022	December 31, 2021	December 31, 2020
Federal tax at statutory rate	$ 12,998	$ 15,189	$ 14,060
State tax, net	(1)	17	–
Patronage distributions	(8,837)	(6,733)	(2,520)
Tax-exempt FLCA earnings	(4,473)	(8,003)	(11,072)
Change in valuation allowance	85	(139)	(341)
Change in tax rate	–	–	–
Other	220	(253)	(128)
Provision (benefit) for income taxes	$ (8)	$ 78	$ (1)

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

	December 31, 2022	December 31, 2021	December 31, 2020
Deferred income tax assets:			
Allowance for loan losses	$ 599	$ 746	$ 865
Annual leave	–	151	191
Nonaccrual loan interest	298	373	323
Loan Fees	–	–	–
Pensions and other postretirement benefits	156	–	–
Loss carryforward	908	410	416
Other property owned		–	–
Gross deferred tax assets	1,961	1,680	1,795
Less: valuation allowance	(1,451)	(1,365)	(1,504)
Gross deferred tax assets, net of valuation allowance	510	315	291
Deferred income tax liabilities:			
Loan fees	(138)	(286)	(243)
Pensions and other postretirement benefits	(358)	–	–
Special Patronage	(14)	–	–
Depreciation	–	(29)	(48)
Gross deferred tax liability	(510)	(315)	(291)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2022, deferred income taxes have not been provided by the Association on approximately $7,400 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 $1,451, $1,365, and $1,504 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	$ 17,020	$ 16,967	$ 17,560	$ 17,539	$ 69,086
Provision for (reversal of) allowance for loan losses	(1,051)	(283)	(968)	(1,486)	(3,788)
Noninterest income (expense), net	(4,980)	(6,150)	(5,142)	5,301	(10,971)
Net income	$ 13,091	$ 11,100	$ 13,386	$ 24,326	$ 61,903

2021	First	Second	Third	Fourth	Total
Net interest income	$ 16,729	$ 16,675	$ 17,110	$ 17,121	$ 67,635
Provision for (reversal of) allowance for loan losses	(62)	189	726	(82)	771
Noninterest income (expense), net	(4,686)	(4,054)	(4,373)	18,500	5,387
Net income	$ 12,105	$ 12,432	$ 12,011	$ 35,703	$ 72,251

2020	First	Second	Third	Fourth	Total
Net interest income	$ 15,734	$ 15,932	$ 16,523	$ 16,697	$ 64,886
Provision for (reversal of) allowance for loan losses	256	453	872	106	1,687
Noninterest income (expense), net	(4,440)	(3,948)	(3,427)	15,570	3,755
Net income	$ 11,038	$ 11,531	$ 12,224	$ 32,161	$ 66,954

Note 14 — Merger Activity

On May 24, 2022, the Board of Directors of the Association and Carolina Farm Credit, ACA signed a letter of intent to merge the two Associations. The merger has been approved by AgFirst, the FCA, and shareholders of both Associations, subject to a reconsideration period which ends on March 22, 2023. Following final approval by all required parties, the merger is expected to take effect upon the commencement of business on April 1, 2023.

Note 15 — Subsequent Events

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

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