AgCarolina Farm Credit, ACA

2022 ANNUAL REPORT

Contents

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of AgCarolina 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 cost of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems, and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been audited by independent auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition and the results of operations of the Association. The undersigned certify that we have reviewed the 2022 Annual Report of AgCarolina 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.

/s/ S. Stuart Pierce, Jr.
Chairman of the Board

/s/ Evan Kleinhans
Chief Executive Officer

/s/ Charles M. Hester
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 disposition 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. This annual report does not include an attestation report of the Association's external accounting firm regarding internal control over financial reporting as none was required.

/s/ Evan Kleinhans
Chief Executive Officer

/s/ Charles M. Hester
Chief Financial Officer

March 9, 2023

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2022	2021	2020	2019	2018
Balance Sheet Data					
Cash	**$ 93**	$ 6	$ 4	$ 3,325	$ 3,029
Loans	**1,362,645**	1,280,860	1,192,556	1,149,313	1,159,962
Allowance for loan losses	**(9,034)**	(13,484)	(14,071)	(14,678)	(14,516)
Net loans	**1,353,611**	1,267,376	1,178,485	1,134,635	1,145,446
Equity investments in other Farm Credit institutions	**16,607**	10,909	11,981	13,481	13,118
Other property owned	**—**	—	—	966	986
Other assets	**45,105**	55,977	48,518	44,419	48,057
Total assets	**$ 1,415,416**	$1,334,268	$1,238,988	$1,196,826	$1,210,636
Notes payable to AgFirst Farm Credit Bank*	**$ 1,072,805**	$1,001,022	$ 915,503	$ 893,705	$ 917,038
Accrued interest payable and other liabilities with maturities of less than one year	**41,333**	39,354	42,643	29,529	29,980
Total liabilities	**1,114,138**	1,040,376	958,146	923,234	947,018
Capital stock and participation certificates	**35,739**	36,457	33,400	30,162	27,306
Retained earnings					
Allocated	**194,581**	177,724	177,724	174,551	167,917
Unallocated	**70,958**	79,711	69,718	68,879	68,395
Total members' equity	**301,278**	293,892	280,842	273,592	263,618
Total liabilities and members' equity	**$ 1,415,416**	$1,334,268	$1,238,988	$1,196,826	$1,210,636
Statement of Income Data					
Net interest income	**$ 35,888**	$ 33,195	$ 32,796	$ 32,134	$ 33,449
Provision for (reversal of) allowance for loan losses	**(4,513)**	28	(45)	339	1,759
Noninterest income (expense), net	**(7,258)**	2,544	(271)	(6,230)	(3,020)
Net income	**$ 33,143**	$ 35,711	$ 32,570	$ 25,565	$ 28,670
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.45%**	2.85%	2.73%	2.16%	2.43%
Total members' equity	**10.57%**	11.81%	11.18%	9.18%	10.45%
Net interest income as a percentage of average earning assets	**2.73%**	2.72%	2.82%	2.80%	2.92%
Net (chargeoffs) recoveries to average loans	**0.005%**	(0.050)%	(0.048)%	(0.015)%	0.042%
Total members' equity to total assets	**21.29%**	22.03%	22.67%	22.86%	21.78%
Debt to members' equity (:1)	**3.70**	3.54	3.41	3.37	3.59
Allowance for loan losses to loans	**0.66%**	1.05%	1.18%	1.28%	1.25%
Permanent capital ratio	**22.76%**	22.73%	23.36%	23.03%	21.70%
Common equity tier 1 capital ratio	**19.76%**	19.47%	20.27%	20.08%	19.20%
Tier 1 capital ratio	**19.76%**	19.47%	20.27%	20.08%	19.20%
Total regulatory capital ratio	**20.73%**	20.58%	21.52%	21.33%	20.32%
Tier 1 leverage ratio**	**19.11%**	19.62%	20.46%	20.23%	19.35%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**18.81%**	19.64%	20.62%	20.40%	19.50%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 24,500**	$ 25,554	$ 28,087	$ 17,916	$ 19,000
Nonqualified retained earnings	**7,924**	—	3,121	5,972	8,487

** 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 AgCarolina 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" included 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 North 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 extensive agricultural experience and knowledge of the market has been a contributing factor to our success.

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.AgCarolina.com*, or by calling 1-800-368-5819, extension 3262, or writing Charles M. Hester, Chief Financial Officer, AgCarolina Farm Credit, P.O. Box 14789, Raleigh, NC 27620. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report is prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

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

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

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

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

The value of farm real estate accounted for 84 percent of the total value of the U.S. farm sector assets for 2022 according to the USDA in its February 2023 forecast. Because real estate is such a significant component of the balance sheet of U.S. farms, the value of farm real estate is a critical measure of the farm sector's financial performance. Changes in farmland values also affect the financial well-being of agricultural producers because farm real estate serves as the principal source of collateral for farm loans.

USDA's forecast projects (in nominal dollars) that farm sector equity, the difference between farm sector assets and debt, will rise 10.6 percent in 2022. Farm real estate value is expected to increase 10.1 percent and non-real estate farm assets are expected to increase 9.7 percent, while farm sector debt is forecast to increase 6.3 percent in 2022. Farm real estate debt as a share of total debt has been rising since 2014 and is expected to account for 69.3 percent of total farm debt in 2022.

The USDA is forecasting farm sector solvency ratios to improve in 2022 to 15.1 percent for the debt-to-equity ratio and 13.1 percent for the debt-to-asset ratio, which are well below the peak of 28.5 percent and 22.2 percent in 1985.

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

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

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2019 to December 31, 2022:

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

Geographic and commodity diversification across the 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.

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

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 below.

	December 31,		
Loan Type	**2022**	**2021**	**2020**
Real estate mortgage	57.63%	59.00%	57.28%
Production and intermediate term	33.13	33.05	34.52
Processing and marketing	4.73	3.96	3.98
Rural residential real estate	2.70	2.62	2.85
Farm-related business	1.27	1.15	0.84
Loans to cooperatives	0.23	0.20	0.38
Communication	0.22	–	0.15
International	0.06	–	–
Power and water/waste disposal	0.03	0.02	–
Total	100.00%	100.00%	100.00%

See Note 3, *Loans and Allowance for Loan Losses*, of the Consolidated Financial Statements, for further information concerning reclassification of loan types for all years presented.

While loans and financially related services are provided to qualified borrowers in the agricultural and rural sectors and to certain related entities, the loan portfolio is diversified.

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

Region	**12/31/22**	**12/31/21**	**12/31/20**
Greenville	14.1%	14.3%	13.3%
Smithfield	10.5	10.4	11.3
Williamston	9.9	10.1	8.4
Elizabeth City	9.1	9.6	9.9
Rocky Mount	9.3	9.3	10.2
La Grange	8.7	9.0	8.2
Louisburg	7.2	7.2	7.4
Swan Quarter	4.8	6.0	6.5
New Bern	5.9	5.7	5.4
Raleigh	5.4	5.4	5.6
Ahoskie	4.6	4.5	4.0
Halifax	3.9	3.7	4.1
Other	6.6	4.8	5.7
Total	100.0%	100.0%	100.0%

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. The five predominant commodities are forestry, tobacco, soybeans, corn and rural rental real estate, which constitute 50 percent of the 2022 loan portfolio.

	Percent of Portfolio		
Commodity Group	**2022**	**2021**	**2020**
Forestry	12%	11%	11%
Tobacco	10	10	12
Soybeans	10	9	8
Corn	9	11	10
Rural Rental Real Estate	9	9	9
Poultry	9	9	8
Cotton	8	8	8
Sweet Potatoes	8	8	8
Swine	5	6	7
Farm Services	5	4	4
Livestock	4	4	4
Home Loans	3	3	3
Vegetables/Fruits	2	2	2
Horticulture	1	1	1
Peanuts	1	1	1
Other	4	4	4
Total	100%	100%	100%

Repayment ability is closely related to the profitability of commodities produced by borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a relatively large concentration of tobacco, forestry, corn, poultry, and soybean producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified beyond a single crop or enterprise, which reduces overall risk exposure. Consumer demand, expected production, and international trade are some of the factors affecting the price of these commodities.

The Association has experienced an increase in the concentration of large loans over the past several years; however 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 diversity of enterprises in the Association's territory.

Gross loan volume as of December 31, 2022 was $1,362,645, a 6.39 percent increase from the same period in 2021. Net loan volume was $1,353,610 as of December 31, 2022, for a 6.80 percent increase from the previous year. The increase in gross and net loan volume during the reporting period is primarily attributed to an increase in member borrowing during 2022. During 2022, the Association targeted certain segments of our business with hopes of increasing market share. Continued efforts are being made to expand services, increase public knowledge of our services, and streamline current delivery of products to enhance and grow the loan portfolio.

The Association loan portfolio is significantly impacted by loan seasonality. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and declines in the fall months as commodities are marketed and proceeds are applied to repay operating loans.

Participation loans provide a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which can strengthen the capital position.

Loan Participations	**2022**	**2021**	**2020**
Participations Purchased – FCS Institutions	$ 79,257	$ 57,842	$ 59,237
Participations Purchased – Non-FCS Institutions	–	–	–
Participations Sold	(240,628)	(270,453)	(301,899)
Total	$ (161,371)	$ (212,611)	$ (242,662)

The Association did not have any loans that were 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 has portions of loans that are guaranteed by the Farm Service Agency. These guarantees are made for the purpose of reducing credit risk. At December 31, 2022, the balance of these guarantees was $23,020, compared to $24,734 at December 31, 2021 and $22,017 at December 31, 2020.

MISSION RELATED INVESTMENTS

Effective December 31, 2016, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for 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.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association, and annually reviews the investment portfolio of every Association that it funds. A typical investment securities portfolio held by a Farm Credit Association would consist of asset-backed securities and mortgage-backed securities. Due to the potential risks involved in holding such investments, the Association does not hold a portfolio of investment securities. Refer to Note 2, *Summary of Significant Accounting Policies,* item F, *Investments*, for further information concerning investment securities.

CREDIT RISK MANAGEMENT

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

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income

- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

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 original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $1 million. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Farm Credit Administration 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	98.87%	97.69%	94.21%
Substandard	1.13%	2.31%	5.79%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

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:

	December 31,		
Nonperforming Assets	**2022**	**2021**	**2020**
Nonaccrual loans	$ 8,940	$ 10,720	$ 25,697
Restructured loans	3,082	3,572	1,694
Accruing loans 90 days or more past due	–	–	–
Total nonperforming loans	12,022	14,292	27,391
Other property owned	–	–	–
Total nonperforming assets	$ 12,022	$ 14,292	$ 27,391
Ratios			
Nonaccrual loans to total loans	0.66%	0.84%	2.15%
Nonperforming assets to total loans and other property owned	0.88%	1.12%	2.30%
Nonperforming assets to capital	3.97%	4.86%	9.75%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $1,780 or 16.60 percent in 2022 and the ratio of nonaccrual loans to total loans was 0.66 percent as of December 31, 2022. The decrease in nonaccrual loans during the year is primarily due to liquidations and payments collected on nonaccrual loans in excess of new transfers to nonaccrual.

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

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

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

	Year Ended December 31,		
Allowance for Loan Losses Activity:	**2022**	**2021**	**2020**
Balance at beginning of year	$ 13,484	$ 14,071	$ 14,678
Charge-offs			
Real estate mortgage	(70)	(877)	(554)
Production and intermediate term	(10)	(55)	(116)
Total charge-offs	(80)	(932)	(670)
Recoveries			
Real estate mortgage	22	161	53
Production and intermediate term	121	156	55
Total recoveries	143	317	108
Net (charge-offs) recoveries	63	(615)	(562)
Provision for (reversal of allowance for) loan losses	(4,513)	28	(45)
Balance at end of year	$ 9,034	$ 13,484	$ 14,071
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.005%	(0.050)%	(0.048)%

The allowance for loan losses decreased by $4,450 in 2022 compared to 2021. The decrease in allowance was attributed to decreases in both the general and specific reserves.

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

	December 31,		
Allowance for Loan Losses by Type	**2022**	**2021**	**2020**
Real estate mortgage	$ 5,158	$ 6,977	$ 6,943
Production and intermediate term	3,059	5,573	6,193
Agribusiness*	551	624	594
Communication	20	–	16
Power and water/waste disposal	3	3	–
Rural residential real estate	238	307	325
International	5	–	–
Total loans	$ 9,034	$ 13,484	$ 14,071

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

See Note 3, *Loans and Allowance for Loan Losses*, of the Consolidated Financial Statements, for further information concerning reclassification of loan types for all years presented.

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

Allowance for Loan Losses	December 31,		
as a Percentage of:	**2022**	**2021**	**2020**
Total loans	0.66%	1.05%	1.18%
Nonperforming loans	75.15%	94.35%	51.37%
Nonaccrual loans	101.05%	125.78%	54.76%

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

RESULTS OF OPERATIONS

Net Income

Net income for the year ended December 31, 2022, totaled $33,143, a decrease of $2,568 or 7.19 percent, as compared to $35,711 for the same period of 2021. The decrease in net income during 2022 when compared to 2021 resulted primarily from a $9,701 decrease in noninterest income, partially offset by a $2,693 increase in net interest income and a $4,541 decrease in provision for loan losses. The decrease in noninterest income was mainly due to decreases in both patronage refunds from other Farm Credit institutions and loan fees.

Major components of the changes in net income for the past two years are outlined in the following table:

Changes in Net Income:	**2022-2021**	**2021-2020**
Net income (prior year)	$ 35,711	$ 32,570
Increase (decrease) in net income due to:		
Interest income	10,113	(1,423)
Interest expense	7,420	(1,822)
Net interest income	2,693	399
Provision for loan losses	4,541	(73)
Noninterest income	(9,701)	4,617
Noninterest expense	(91)	(1,799)
Provision for income taxes	(10)	(3)
Total changes in income	(2,568)	3,141
Net income	$ 33,143	$ 35,711

Net Interest Income

Net interest income was $35.9 million, $33.2 million, and $32.8 million in 2022, 2021, and 2020, respectively. Net interest income is the difference between interest income and interest expense. The increase in net interest income during 2022 when compared to 2021 resulted from an increase of $10.1 million in interest income on loans offset by an increase of $7.4 million in interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets, and cost of debt. 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**
12/31/21 - 12/31/22			
Interest income	$ 3,817	$ 6,296	$ 10,113
Interest expense	1,732	5,688	7,420
Change in net interest income	$ 2,085	$ 608	$ 2,693
12/31/20 - 12/31/21			
Interest income	$ 5,113	$ (6,536)	$ (1,423)
Interest expense	1,693	(3,515)	(1,822)
Change in net interest income	$ 3,420	$ (3,021)	$ 399

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

Noninterest Income

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2022**	**2021**	**2020**	**2022/ 2021**	**2021/ 2020**
Loan fees	$ 2,581	$ 4,907	$ 3,129	(47.40)%	56.82 %
Fees for financially related services	16	608	525	(97.37)	15.81
Patronage refunds from other Farm Credit institutions	14,611	21,136	18,345	(30.87)	15.21
Gains (losses) from sales of premises and equipment, net	1,468	490	130	199.59	276.92
Gains (losses) on other transactions	(1,045)	195	369	(635.90)	(47.15)
Other noninterest income	15	11	232	36.36	(95.26)
Total noninterest income	$ 17,646	$ 27,347	$ 22,730	(35.47)%	20.31 %

Noninterest income for the year ended 2022 decreased $9,701 or 35.47% compared to the year ended 2021. The decrease was attributed to a $6,525 decrease in patronage refunds from other Farm Credit institutions, a $2,326 decrease in loan fees, a $1,240 increase in losses on other transactions, and a $592 decrease in fees for financially related services. The overall decrease was offset by a $978 increase in gains on sales of premises and equipment and a $4 increase in other noninterest income.

Noninterest income for the year ended 2021 increased $4,617 or 20.31% compared to the year ended 2020. The increase was attributed to a $2,791 increase in patronage refunds from other Farm Credit institutions, a $1,778 increase in loan fees, a $360 increase in gains on sales of premises and equipment, an $83 increase in fees for financially related services, and an $11 increase in other noninterest income. The overall increase was offset by a $232 decrease in insurance fund refunds and a $174 decrease in gains on other transactions.

Noninterest Expense

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2022**	**2021**	**2020**	**2022/ 2021**	**2021/ 2020**
Salaries and employee benefits	$ 13,311	$ 14,254	$ 14,000	(6.62)%	1.81 %
Postretirement benefits	2,194	3,362	2,959	(34.74)	13.62
Occupancy and equipment	1,248	1,178	1,093	5.94	7.78
Insurance Fund premiums	2,017	1,485	858	35.82	73.08
Purchased services	1,799	885	737	103.28	20.08
Data processing	431	509	312	(15.32)	63.14
Other operating expenses	3,891	3,133	2,874	24.19	9.01
(Gains) losses on other property owned, net	–	(6)	168	(100.00)	(103.57)
Total noninterest expense	$ 24,891	$ 24,800	$ 23,001	0.37 %	7.82 %

Noninterest expense for the year ended 2022 increased $91 or 0.37% compared to the year ended 2021. The increase was attributed to a $914 increase in purchased services, a $758 increase in other operating expenses, and a $532 increase in insurance fund premiums. Starting in June 2022, the Farm Credit System Insurance Corporation (FCSIC) set premiums at 20 basis points on adjusted insured debt outstanding for the remainder of the year. In addition, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. Furthermore, there was a $70 increase in occupancy and equipment and a $6 decrease in gains on other property owned. The overall increase was offset by a $1,168 decrease in postretirement benefits, a $943 decrease in salaries and employee benefits, and a $78 decrease in data processing.

Noninterest expense for the year ended 2021 increased $1,799 or 7.82% compared to the year ended 2020. The increase was attributed to a $627 increase in insurance fund premiums, a $403 increase in postretirement benefits, a $259 increase in other operating expenses, a $254 increase in salaries and employee benefits, a $197 increase in data processing, a $148 increase in purchased services, and an $85 increase in occupancy and equipment. The overall increase was offset by a $174 increase in gains on other property owned.

Income Taxes

The Association recorded a $13 provision for income tax for the year ended December 31, 2022, as compared to $3 for 2021 and none for 2020. Refer to Note 2, *Summary of Significant Accounting Policies,(item K - Income Taxes)*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

	For the 12 Months Ended		
Key Results of Operations Comparisons	**12/31/22**	**12/31/21**	**12/31/20**
Return on average assets	2.45%	2.85%	2.73%
Return on average members' equity	10.57%	11.81%	11.18%
Net interest income as a percentage of average earning assets	2.73%	2.72%	2.82%
Net (charge-offs) recoveries to average loans	0.005%	(0.050)%	(0.048)%

The 2022 return on average assets (ROA) decreased from 2021 by 40 basis points and return on average member's equity (ROE) decreased by 124 basis points from 2021. The primary reason for the decrease in ROA was the fact that there was a decrease in net earnings in 2022. ROE also decreased due to decreased earnings. Net interest income as a percentage of average earning assets, or net interest margin, increased by 1 basis point from 2021 to 2022. The increase was primarily a result of an increase in nonaccrual loan recoveries in 2022.

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 be strong 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 GFA has a one year term and is renewable each year. The current agreement expires on December 31, 2022, and the Association has no reason to believe the GFA will not be renewed upon expiration. 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."

As of December 31, 2022, the Association had $331,814 in loanable funds outstanding. The Association is able to effectively deploy these funds as working capital to boost profitability and patronage refunds. Through AgFirst's direct note pricing accounting for the calculation of interest expense, the Association is given an interest rate credit for loanable funds based on the prevailing average direct note rate of the Association's entire portfolio.

Total notes payable to the Bank at December 31, 2022, was $1,072,805 as compared to $1,001,022 at December 31, 2021 and $915,503 at December 31, 2020. The increase in 2022 of 7.17 percent as compared to December 31, 2021 was attributable to an increase in Association loan volume. The average volume of outstanding notes payable to the Bank was $1,021,833 and $934,039 for the years ended December 31, 2022 and 2021, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in the Farmer Mac Long-Term Standby program, investments, and preferred stock program 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 outstanding from third party financial institutions as of December 31, 2022.

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable, and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 30 or 90-day London Interbank Offered Rate (LIBOR). A discussion on the LIBOR reference rate reform is detailed in the "LIBOR Transition" section of this Management's Discussion and Analysis. Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Relationship with the Bank

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

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

CAPITAL RESOURCES

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

The Association'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. There were no material changes to the capital plan for 2022 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings. During 2010, the Association's Board approved use of financial parameters or guidelines to assist in capital planning and in determining the appropriate level of patronage to distribute. These patronage parameters were also included in the 2022 capital adequacy plan.

Total members' equity at December 31, 2022 increased 2.51 percent to $301,278 from the December 31, 2021 total of $293,892. At December 31, 2021, total members' equity increased 4.65 percent from the December 31, 2020 total of $280,842. The increase in 2022 was mainly due to net income earned during the year, offset by patronage refunds to customers and a decrease in preferred stock. The increase in 2021 was mainly due to net income earned during the year and an increase in preferred stock, offset by patronage refunds to customers.

Preferred stock was $31,534 as of December 31, 2022, a decrease of 2.75 percent from the December 31, 2021 level of $32,426. The majority of this decrease was related to decreased purchases of preferred stock. This preferred stock is a non-voting, at-risk class of stock that is only available to Association stockholders. Dividends are paid quarterly on outstanding shares of preferred stock, and for the year ended December 31, 2022, $284 in dividends were declared and paid in shares of stock, as compared to $164 for the same period in 2021. The average dividend rate paid on shares of preferred stock during 2022 was 0.73 percent, which was 30 basis points more than 2021. Member stock and participation certificates were $4,204 on December 31, 2022, compared to $4,030 on December 31, 2021. The increase is attributed to a growth in the number of loans outstanding.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum capital ratios, and as of December 31, 2022, all capital ratios were well above the minimum regulatory requirements as illustrated in the chart shown below. 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. The Association is currently not prohibited from retiring stock or distributing earnings by statutory and regulatory restrictions, nor knows of any reason such prohibitions may apply for the foreseeable future.

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

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 Ratio	4.5%	2.5%	7.0%	19.76%	19.47%	20.27%
Tier 1 Capital Ratio	6.0%	2.5%	8.5%	19.76%	19.47%	20.27%
Total Capital Ratio	8.0%	2.5%	10.5%	20.73%	20.58%	21.52%
Permanent Capital Ratio	7.0%	0.0%	7.0%	22.76%	22.73%	23.36%
Non-risk-adjusted:						
Tier 1 Leverage Ratio*	4.0%	1.0%	5.0%	19.11%	19.62%	20.46%
UREE Leverage Ratio	1.5%	0.0%	1.5%	18.81%	19.64%	20.62%

** 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.

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 non-patronage sourced business the remaining consolidated net earnings are eligible for allocation to borrower\patrons. 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 $24,500 in 2022, $25,554 in 2021, and $28,087 in 2020.

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.

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 Association has exposure to LIBOR arising from loans made to customers and the note payable to AgFirst Farm Credit Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

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

The Association has implemented LIBOR transition plans and continues 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 outstanding variable-rate financial instruments tied to LIBOR based on contractual maturity at December 31, 2022:

(dollars in millions)	Due in 2023 (On or Before June 30)	Due After June 30, 2023
Loans	$ 353	$ 16,775
Total	$ 353	$ 16,775
Note Payable to AgFirst Farm Credit Bank	$ 269	$ 12,774
Total	$ 269	$ 12,774

The Association is evaluating all variable rate instruments and actively monitoring LIBOR exposure of the financial instruments listed in the table above as part of its LIBOR Transition Plan (Plan). The Plan includes implementing fallback language into variable-rate financial instruments which provides the ability to move these instruments to another index. To the extent that any loan has not been prepaid, redeemed or amended prior to June 30, 2023 to include a non-LIBOR fallback rate, pursuant to the LIBOR Act and Regulation ZZ, the LIBOR-based rate that would have been paid under such loan will be replaced by operation of law.

NOTICE OF SIGNIFICANT EVENT

Following approval by AgFirst, the FCA, and shareholders, effective January 1, 2023, the Association merged with Cape Fear Farm Credit, ACA. The merger was accounted for under the acquisition method of accounting guidance in accordance with the FASB Accounting Standards Codification 805 Business Combinations (ASC 805).

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

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Unincorporated Business Entities

The Association is the sole shareholder/owner of an Unincorporated Business Entity (UBE) as defined by FCA regulations. The UBE, ACF Acquisitions, LLC (ACF), is a wholly owned limited liability company organized in the state of North Carolina. ACF was organized to acquire real estate subsequent to Association foreclosure proceedings and ACF acquires and holds the Association's real estate acquired property.

Description of Property

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

Location	Description	Form of Ownership
408 NC Hwy 561 W Ahoskie	Branch	Owned
101 Impact Boulevard Elizabeth City	Branch	Owned
636 Rock Spring Road Greenville	Branch/ Administrative	Owned
419 S. King Street Halifax	Branch	Owned
7900 Hwy 70 West La Grange	Branch	Owned
1654 NC Hwy 39 N Louisburg	Branch	Owned
1309 S. Glenburnie Road New Bern	Branch	Owned
2472 Woodruff Road Rocky Mount	Branch	Owned
2850 US Hwy 70 Business East Smithfield	Branch	Owned
13191 U.S. Hwy 264 Swan Quarter	Branch	Owned

Location	Branch Description	Form of Ownership
1105 Garrett Road Williamston	Branch	Owned
4000 Poole Road Raleigh	Branch/ Administrative	Owned

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. The president and CEO and all other senior officers of the Association, together with their length of service at their present position, as well as positions held during the last five years, are as follows:

Name and Title	Time in Position	Prior Experience	Other Business Interests
David W. Corum *(1)*, *President and CEO*	11 years	Director of Financial Analysis and Systems at Farm Credit Services of Mid America from 1986 to 1993. Executive Vice President and Chief Financial Officer with AgCarolina Farm Credit from 1993 to March 2012. Total of 41 years of employment in the Farm Credit System, including 29 years with AgCarolina Farm Credit.	He serves on the AgFirst/FCBT Plan Fiduciary Committee and is a member of the North Carolina State University Ag Foundation Board, the North Carolina State University Agricultural Institute Advisory Board, the board of the North Carolina Foundation for Soil and Water Conservation, the board of the North Carolina Agribusiness Council, and the University of Mount Olive Agricultural Advisory Board.
Matthew J. Currin *(2)*, *Senior Vice President and Chief Financial Officer*	11 years	Senior Vice President and Chief Financial Officer with Cape Fear Farm Credit from 2006 until 2011 and Associate with a local accounting firm from November 2011 to April 2012. A total of 18 years of employment in the Farm Credit System including 11 years with AgCarolina Farm Credit.	
Anthony S. (Scott) Jackson, *Senior Vice President and Chief Credit Officer*	2 years	Vice President – Credit Risk Management from 2013 to January 2020 and Chief Risk Officer from February 2020 to June 2021. Total of 12 years of employment with the Farm Credit System, all with AgCarolina Farm Credit.	
Roy P. Robertson, Jr., *Senior Vice President – Corporate Lending Division*	11 years	Senior Vice President Financial Services from 2008 until 2011 and Executive Vice President and Chief Lending Officer from 2011 to March 2012. Total of 23 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	
Arthur R. (Buck) Spruill, III, *Senior Vice President –Branch Lending East Region*	8 years	Loan officer with AgCarolina Farm Credit from 1989 to 1993. Agribusiness Executive with two commercial banks from 1993 to 2013. Agribusiness Loan Officer from 2013 to 2015. Total of 13 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	He is a co-owner of a closely held family farming operation and also serves as a board member of Coastal Carolina Cotton Gin, a cotton processing facility.
Timothy M. Pace, *Senior Vice President –Branch Lending West Region*	11 years	Financial Services Officer from 1999 to 2008 and Senior Vice President Financial Services from 2008 to March 2012. Total of 24 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	
Laura S. (Skipper) Jones, *Senior Vice President – Marketing and Communications*	6 years	Marketing Manager from 2008 to 2014 and Senior Vice President – Administrative Officer from 2014 to 2017 with Cape Fear Farm Credit. Total of 15 years of employment in the Farm Credit System, including six years with AgCarolina Farm Credit.	She serves as an advisory board member of the North Carolina Agricultural and Technical University College of Agricultural and Environmental Sciences, serves on the North Carolina State University NCALS Research Foundation Board and also serves as a member of the North Carolina FFA Advisory Board.
Evan J. Kleinhans *(3)*, *President and CEO*	2 months	He currently also serves as the Chief Executive Officer for Cape Fear Farm Credit. He previously served as Chief Financial Officer for eight years at Cape Fear Farm Credit.	Member of the Board of Directors for the North Carolina Foundation for Soil and Water Conservation. Member of the Board of Directors for the North Carolina's Southeast Regional Economic Development Partnership.
Charles M. Hester *(3)*, *Senior Vice President and Chief Financial Officer*	2 months	He currently also serves as the Chief Financial Officer for Cape Fear Farm Credit. He previously served as Controller for five years at Cape Fear Farm Credit.	

(1) David W. Corum retired effective November 30, 2022.
(2) Matthew J. Currin resigned effective July 6, 2022.
(3) Effective November 1, 2022, AgCarolina Farm Credit, ACA and Cape Fear Farm Credit, ACA entered into a transition management agreement (TMA) in anticipation of a merger of the two associations. Under the TMA, Evan J. Kleinhans, Cape Fear's existing CEO, became CEO of AgCarolina as well. In addition, Charles M. Hester, Cape Fear's existing CFO, became CFO of AgCarolina, as well.

The total amount of compensation (in whole dollars) earned by the CEO and other officers (excluding the CEO) as a group during the years ended December 31, 2022, 2021, and 2020, is presented in the following tables. The first table presented illustrates actual compensation received in cash in the form of salary and bonus:

		Received Compensation		
Name of Individual or Number in Group*	Year	Salary	Bonus	Total Received Compensation (a)
David W. Corum	2022	$ 331,650	$ 121,437	$ 453,087
David W. Corum	2021	$ 337,415	$ 119,068	$ 456,483
David W. Corum	2020	$ 322,512	$ 106,128	$ 428,640
7 Officers	2022	$ 1,091,978	$ 434,340	$ 1,526,318
7 Officers	2021	$ 948,820	$ 337,509	$ 1,286,329
6 Officers	2020	$ 1,091,213	$ 356,764	$ 1,447,977

**Under the Transition Management Agreement, Evan J. Kleinhans and Charles M. Hester did not receive compensation for their AgCarolina management roles as CEO and CFO, respectively.*

The table below discloses forms of perquisites and other noncash compensation and these items are described in detail in the subsequent paragraphs, which do not reflect actual cash compensation received by the CEO or officers presented. The total of all cash (a) and noncash (b) compensation for the CEO and officers is also presented here.

Perquisites and Noncash Compensation						
Name of Individual or Number in Group*	Year	Change in Pension**	Perquisites	Other	Total Perquisites and Noncash (b)	Total Received and Noncash Compensation (a+b)
David W. Corum	2022	$ (325,200)	$ 11,306	$ 310,000	$ (3,894)	$ 449,193
David W. Corum	2021	$ (173,425)	$ 13,266	$ 60,000	$ (100,158)	$ 356,325
David W. Corum	2020	$ 292,634	$ 12,570	$ 57,000	$ 362,204	$ 790,844
7 Officers	2022	$ (792,365)	$ 120,772	$ 130,000	$ (541,593)	$ 984,725
7 Officers	2021	$ 135,116	$ 44,897	$ 120,000	$ 300,013	$ 1,586,342
6 Officers	2020	$ 676,141	$ 45,896	$ 140,000	$ 862,037	$ 2,310,014

** Under the Transition Management Agreement, Evan J. Kleinhans and Charles M. Hester did not receive compensation for their AgCarolina management roles as CEO and CFO, respectively.*
*** This figure is a third party actuarial determination of the change in the present value of the estimated pension cash flows for employees as of December 31, 2022. This does not represent any actual cash compensation provided to any employee but is simply a change in the calculation that is affected by a number of assumptions and inputs.*

The table below illustrates the present value of pension benefits for the CEO and other officers presented. This value represents the third party actuarial determination of the present value of the estimated pension cash flows for employees as of December 31, 2022. This does not represent any actual cash compensation provided to any employee but is simply a calculation that is affected by a number of assumptions and inputs. Actual funds received can differ based on how actual events compare to assumptions used in the calculation.

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:					
David W. Corum	2022	AgFirst Retirement Plan	43.67	$ 869,226	$ 2,267,269
			Total	$ 869,226	$ 2,267,269
Officers					
3 Officers, excluding the CEO	2022	AgFirst Retirement Plan	23.78**	$ 2,708,382	$ –
			Total	$ 2,708,382	$ –

** Under the Transition Management Agreement, Evan J. Kleinhans and Charles M. Hester did not receive compensation for their AgCarolina management roles as CEO and CFO, respectively.*
*** Represents the average years of credited service for the group*

In addition to a base salary, employees earn additional compensation under a bonus or incentive plan. The Association incentive plan is designed to motivate employees to exceed business goals during the fiscal year. Each region or business unit's incentive plan is tailored to meet the specific goals of that unit. These goals typically include loan volume, financially related services income, fee income, credit quality, credit administration, net earnings, and other key measurements. All employees in good standing are included for incentive plan eligibility. The incentive bonus is earned over the twelve-month calendar year period and is normally paid in the first quarter of the following year. In addition to the year-end incentive bonus plan described above, certain employees involved in the direct lending function are eligible for a quarterly sales incentive bonus. The sales incentive bonus is paid on new loan volume generated each quarter after a threshold amount of new loan volume is met. The President and Senior Vice Presidents do not participate in the sales incentive bonus.

The amounts included under the column heading "Change in Pension" represents the amount of year over year change in the present value of senior officers' *Actuarial Value of Accumulated Benefits,* also known as the pension accumulated benefit obligation (ABO). The ABO is an estimate of the present value of the employee's future cash flows associated with their pension, which assumes that the employee ceases to work for the company at the time the estimation is made. The ABO is unique to each participant in the plan and is calculated using a number of factors and assumptions including, but not limited to, the number of years of service in the plan, the discount rate used in the present value calculation, retirement eligibility, life expectancy of the participant, the participant's compensation basis and changes in beneficiary elections by the participant. These assumptions will almost certainly change from year to year depending on the information present at a given measurement date. The amount of the change in pension for Mr. Corum was $(325,200) and the amount of the change in pension value for the remaining officers presented above is $(792,365).

The amounts included under the column "Perquisites" include group life insurance, spousal travel, service awards, and the unreimbursed portion of the value of the personal use of an Association provided vehicle.

The amounts included under the column heading "Other" are funds that have been invested in a nonqualified long-term deferred compensation program for certain Association employees. The program provides deferred compensation benefits to encourage focus on strategies that are in the long-term best interest of the Association and its shareholders. Under the program the funds are placed in a Trust owned by the Association. Compensation is deferred until a later date upon which the employee meets certain vesting guidelines and employment is terminated. All current and future assets used by the Association to fund this program will remain general assets of the Association until payment or distribution is made.

Amounts disclosed in the *Pension Benefits Table* represent the retirement plan(s) which CEO and other senior officers participate in and details about certain aspects of the plan(s). As illustrated, the CEO and four senior officers participate in the AgFirst Retirement Plan and three senior officers do not participate in a defined benefit pension plan. See *Note 9, Employee Benefit Plans* for further information. The number of years of credited service for the Association's CEO is 43.67 years. The average of the three officers in the AgFirst Retirement Plan, exclusive of the CEO, is shown at 23.78 years, with a range of credited service within the plan from 22 to 25 years.

The "Actuarial Present Value of Accumulated Benefits" column in the *Pension Benefits Table* represents the present value of the future cash flows related to the pension plans for the CEO and other senior officers as a group (exclusive of the CEO), also known as the ABO. The ABO is affected by a number of factors and assumptions, as described earlier. The ABO amount represents a point-in-time valuation and the actual amounts paid in retirement could be considerably less if all assumptions made in the calculation are not realized.

Disclosure of information on the total compensation paid during 2022 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Directors

The following chart details the number of meetings, other activities, current committee assignments, the current term, additional compensation paid for other activities (if applicable), and total cash compensation paid for each director (all amounts are in whole dollars):

		Days Served					
Name of Director (a)	**Year of Original Election/ Appointment**	**Regular Board Meetings**	**Other Official Activities**	**2022 Committee Assignments**	**Current Term (b)**	**Comp. Paid for other Activities (c)**	**Total Comp. Paid During 2022**
B. Derek Potter, *Chairman*	2009	6	33	Executive, Governance	2022-2025	$23,100	$33,300
S. Stuart Pierce, Jr., *Vice Chairman*	2005	6	38	Credit, Executive, Governance	2021-2024	26,600	36,800
Dr. A. Blake Brown	2020	6	27	Audit, Credit	2020-2023	18,900	29,100
Paul A. Drake	2007	6	29	Credit, Executive, Governance	2022-2025	20,300	30,500
Bonnie V. Hancock	2022	6	28	Audit	2022-2025	19,600	29,800
Bundy H. Lane	2008	6	13	Audit	2020-2023	9,100	19,300
Audie M. Murphy	2006	5	34	Audit, Compensation, Governance	2022-2025	23,800	33,300
Rodney D. Smith	2012	5	11	Compensation	2021-2024	7,700	17,200
Ellis W. Taylor	2007	6	29	Audit, Governance	2022-2025	20,300	30,500
Jackie E. Thompson, Sr.	2016	6	17	Compensation	2020-2023	13,300	23,500
Robert E. Turner, Jr.	2019	6	31	Credit, Compensation	2022-2025	21,700	31,900
Mark A. Wellons	2021	6	25	Credit	2021-2024	17,500	27,700
TOTAL						$221,900	$342,900

(a) *Position Title as of 12/31/2022.*
(b) *All directors elected in 2022 officially began their current term January 1, 2023 and will complete their current term on December 31, 2025.*
(c) *Includes board committee meetings and other board activities other than regular board meetings, including Director training and participation in conferences.*

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

The aggregate amount (in whole dollars) of reimbursement for travel, subsistence and other related expenses for all directors as a group was $98,540 for 2022, $67,613 for 2021 and $74,809 for 2020. Subject to approval by the board, the Association may provide payment to directors of $700 per day for attendance at meetings, committee meetings, or special assignments. In addition to the per day payment, directors are paid a quarterly retainer fee of $1,500. Total compensation paid to directors as a group was $342,900. Association directors also benefited from non-cash compensation related to premiums that were paid on their behalf for accidental death and dismemberment insurance for Association related travel and business.

The following sets forth certain information regarding the directors of the Association who served during 2022 and their principal occupation for the past five years:

B. Derek Potter, *Chairman,* is a row crop farmer in Pamlico County who also serves on the board of a closely held farming corporation, the United Soybean Board, the North Carolina Soybean Board, the Pamlico County Soil & Water Board, the NC Soil and Water Commission, the Pamlico County Voluntary Ag District and the Pamlico County Extension Advisory Committee.

S. Stuart Pierce, Jr., *Vice Chairman,* is a row crop farmer in Hertford County who also serves on the board of Producers Gin of Murfreesboro, manages Ahoskie Fertilizer Co, Inc., is currently serving as President of the Hertford County Farm Bureau and serves on the North Carolina Farm Bureau Board and the board of the North Carolina Farmland Preservation Trust Fund, a land preservation trust.

Dr. Alvin B. (Blake) Brown, Outside Director, is the Hugh C. Kiger Professor Emeritus of Agricultural and Resource Economics at North Carolina State University. Dr. Brown previously served as the senior economist for the Council of Economic Advisers in the Executive Office of the President of the United States, where he focused on national agricultural policy. He currently serves on the national Budget and Economy Issue Advisory Committee for the American Farm Bureau Federation as well as the county board of directors for Watauga County Farm Bureau. Dr. Brown also has a beef cattle farm in the NC mountains.

Paul A. Drake is a row crop and livestock farmer in Edgecombe County who also serves on the boards of Edgecombe Volunteer Ag District and the board of several closely held family farming entities. He also serves as a director and as treasurer of the East Carolina Livestock Arena, Inc.

Bonnie V. Hancock, Outside Director, is Professor of Practice in the Poole College of Management at North Carolina State University (NCSU) where she teaches graduate classes in financial management and financial planning. She was also Executive Director of the Enterprise Risk Management Initiative from 2006-2021. Prior to joining NCSU, she worked with Progress Energy, as senior vice president of finance and information technology and later as president of Progress Fuels, a subsidiary that produced and marketed gas, coal and synthetic fuels, and operated fuel terminals and ash management facilities. She is a member of the board of the National Association of Corporate Directors – Research Triangle Chapter, an organization for the advancement of exemplary board leadership, where she serves as board chair and she is a member of the Finance Committee of the Board of the North Carolina Coastal Pines Girl Scout Council, a leadership development organization for girls.

Bundy H. Lane is a row crop and livestock farmer in Gates County who serves on the board of Gates Cotton Gin and is a Board member and officer of several closely held family farming entities.

Audie M. Murphy is a row crop and poultry farmer in Greene County who also serves as secretary of the Greene Gin and Cotton Company, the Greene County Farm Bureau Board, and serves as an officer and director on several closely held family farming entities.

Rodney D. Smith is a row crop and livestock farmer in Lenoir County who serves on the board of the Lenoir County Farm Bureau and the Lenoir County Voluntary Agricultural District. Mr. Smith also manages and serves as a board member for multiple closely held family farming entities.

Ellis W. Taylor is a row crop farmer in Halifax County who also serves on the boards of the Federal Farm Credit Banks Funding Corporation, the funding agent for the Farm Credit System, AgFirst Farm Credit Bank, the district Farm Credit Bank, Northampton County Farm Bureau and Roanoke Cotton Company LLC.

Jackie E. Thompson, Sr. is a row crop and produce farmer in Wake County who also serves on the boards of Wake County Farm Bureau, North Carolina Farm Bureau, the North Carolina Tobacco Growers Association, and North Carolina Tobacco Associates.

Robert E. Turner, Jr. is a row crop and livestock farmer in Martin County who serves as a board member for multiple closely held farming entities.

Mark A. Wellons is a row crop and livestock farmer in Johnston County who serves as a board member for multiple closely held farming entities and as vice chairman for Tobacco Associates, a commodity organization. He also serves on the boards of North Carolina Farm Bureau, as chairman of the NC Farm Bureau's Energy and Transportation Committee as well as the R. Flake Shaw Scholarship 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.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditor

There were no changes in or material disagreements with the independent auditor 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 auditor for the year ended December 31, 2022 were as follows (in whole dollars):

	2022
Independent Auditor	
PricewaterhouseCoopers, LLP	
Audit services	$ 50,704
Total	$ 50,704

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

Preferred Stock Insider Transactions

The following describes transactions related to the purchase/sale of Association preferred stock by senior officers or directors who are considered Insiders which occurred during the 12-month period ended December 31, 2022. An Insider is defined to include any one or more of the following: (1) the Association's directors, officers, employees and agents; (2) any corporation, partnership, limited liability company or other entity of which any of the Association's directors, officers, employees or agents, or nominees of any of the foregoing, are a director, officer, partner or the holder of a majority of the equity ownership of the entity; and (3) the spouse and any other person who regularly resides in the same household of any officer, director, employee or agent.

There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2022 and the average dividend rate paid on shares of preferred stock during 2022 was 0.73 percent.

Consolidated Financial Statements

The consolidated financial statements, together with the report of PricewaterhouseCoopers, LLP dated March 9, 2023 and the report of management, which appear in this Annual Report, are included herein.

Copies of the Association's quarterly reports are available upon request free of charge by calling 1-800-368-5819, extension 3262, or writing Charles M. Hester, Chief Financial Officer, AgCarolina Farm Credit, P.O. Box 14789, Raleigh, NC 27620, or accessing the website, *www.AgCarolina.com.* The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

Shareholder Investment

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

Young, Beginning, and Small Farmers and Ranchers Program

The Association's mission includes providing sound and constructive credit and related services to young, beginning, and small (YBS) farmers and ranchers. Annual marketing goals are established to increase market share of loans to YBS farmers and ranchers. To facilitate our lending programs, financing programs and use of government guaranteed loan programs have been adopted and implemented. Educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers have been developed or sponsored.

YBS farmers and ranchers are defined as:

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

The following tables outline the loan volume (in thousands) and number of outstanding YBS loans as of December 31, 2022 and new YBS loans made in 2022 as compared to the annual marketing goals set forth in the Association's annual business plan.

Total Portfolio Goals and Progress
As of December 31, 2022

	Number of Loans		Amount of Loans	
	2022 Goal	2022 Actual	2022 Goal	2022 Actual
Young	1,208	1,343	$159,030	$183,394
Beginning	1,766	2,003	230,767	284,109
Small	2,665	2,844	252,820	290,128

New Loan Goals and Progress
December 31, 2022

	Number of Loans		Amount of Loans	
	2022 Goal	2022 Actual	2022 Goal	2022 Actual
Young	395	375	$64,469	$60,568
Beginning	586	554	99,848	101,630
Small	815	749	97,438	84,118

The following table shows the Association's YBS loans as a percent of the total number of loans as of December 31, 2022, and comparable demographics from the 2017 Agricultural Census. The Association's percentages vary from the Census percentages because the Association's methodology uses number of loans and the Census uses number of farmers.

	Association 12/31/22 Number of Loans	2017 Ag Census Number of Farmers
Young	17.67%	8.01%
Beginning	26.35%	26.10%
Small	37.42%	75.81%

As part of the Association's YBS program, the Association has established the following mission statement, qualitative goals, and methods to ensure credit and services are provided in a safe and sound manner. These program components are described below along with a status report of each component.

YBS Program Component	Status
Mission Statement: AgCarolina Farm Credit recognizes that young, beginning, and small farmers and ranchers face many challenges and obstacles. Our organization is dedicated to improving the future of agriculture and our rural communities by supporting young, beginning, and small farmers and ranchers through educational and leadership opportunities as well as providing competitive lending.	The Association is meeting its mission statement by fulfilling the credit needs of YBS farmers in the Association's territory.
Qualitative Goals: The following qualitative goals were set for 2022: • Continue to broaden YBS and marketing outreach programs. • Broaden partnering opportunities with other organizations. • Increase educational opportunities for YBS farmers. • Broaden participation and involvement in youth programs and outreach activities. • Ensure sound YBS controls through expanded reporting.	The Association participated in the following YBS activities during 2022 in meeting its qualitative goals: • Supported the commodity groups including those that benefit the diverse segments of the ag community: NC Junior Beef Roundup, NC Dairy Association, NC Junior Hereford Association, NC Pork Council, Carolina Organic Commodities and Livestock Conference, the Center for Environmental Farming Systems and many others. • Sponsorship of youth livestock shows throughout the service territory. • Supported the North Carolina FFA and 4-H groups by providing financial assistance, sponsorships, speakers, grants and volunteers. • Sponsored the annual FFA State Convention. • Partnered with the Tobacco Farm Life Museum in recognizing a young producer with the "Innovative Young Farmer" award. • Provided scholarships to youth in our service territory. • Grants presented to organizations across eastern North Carolina for programs that included FFA and 4-H projects, local food banks, and projects for non-profit organizations. • Provided online business planning programs, Ag Biz Planner and Ag Biz Basics, for young, beginning, small, and minority producers. • Hosted a Young, Beginning, and Small Farmer (YBS) Conference and Women in Ag Conference. • Hosted Ag Leadership Institute providing education on business training, farm transition, ag economics, and personal finance. • Partnered with Ripe Revival to provide healthy food options in food deserts within our territory. • Sponsored Ag Days at NC State University and NC Agriculture and Technical State University. • Hosted annual Pull for Youth sporting clays event, a fundraiser for NC 4-H and FFA. • Conducted educational webinars during the year. • Offered weather and commodity marketing email subscriptions. • Provided job shadowing opportunities for students.
Credit & Service Methods: Ensure methods are in place to make sure that credit and services offered to YBS farmers are provided in a safe and sound manner, and within the Association's risk-bearing capacity.	The Association's YBS program includes customized loan underwriting standards, loan guarantees, additional co-makers, and other credit enhancements to ensure that credit and services are provided in a safe and sound manner, and within the Association's risk-bearing capacity.

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 AgCarolina 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 auditor 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 AU-C 260 and 265 *(The Auditor's Communication With Those Charged With Governance)*. PwC has provided to the Committee the written disclosures required by professional standards.

The Committee discussed with PwC its independence from AgCarolina Farm Credit, ACA. The Committee also reviewed the non-audit services provided by PwC, if any, 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:

/s/ Ellis W. Taylor
Chairman of the Audit Committee

Members of Audit Committee

A. Blake Brown
Dean C. Hilton
Bundy H. Lane
B. Derek Potter
Gary L. Rouse
Michael T. Stone

March 9, 2023

Report of Independent Auditors

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

Opinion

We have audited the accompanying consolidated financial statements of AgCarolina 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.

Emphasis of Matter

As discussed in Note 14 to the consolidated financial statements, following approval by AgFirst Farm Credit Bank, the Farm Credit Administration, and shareholders, effective January 1, 2023, the Association merged with Cape Fear Farm Credit, ACA. The merged association will conduct business as AgCarolina Farm Credit, ACA. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

PricewaterhouseCoopers LLP, *1075 Peachtree Street NE, Suite 2600, Atlanta, GA 30309*
T: (678) 419 1000, F: (678) 419 1239, www.pwc.com/us

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 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	**$ 93**	$ 6	$ 4
Loans	**1,362,645**	1,280,860	1,192,556
Allowance for loan losses	**(9,034)**	(13,484)	(14,071)
Net loans	**1,353,611**	1,267,376	1,178,485
Accrued interest receivable	**17,522**	14,535	14,184
Equity investments in other Farm Credit institutions	**16,607**	10,909	11,981
Premises and equipment, net	**14,722**	15,568	11,858
Accounts receivable	**8,922**	21,307	18,419
Other assets	**3,939**	4,567	4,057
Total assets	**$ 1,415,416**	$ 1,334,268	$ 1,238,988
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,072,805**	$ 1,001,022	$ 915,503
Accrued interest payable	**2,995**	1,782	1,661
Patronage refunds payable	**24,507**	25,555	28,096
Accounts payable	**2,539**	1,724	1,204
Advanced conditional payments	**37**	126	9
Other liabilities	**11,255**	10,167	11,673
Total liabilities	**1,114,138**	1,040,376	958,146
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**35,739**	36,457	33,400
Retained earnings			
Allocated	**194,581**	177,724	177,724
Unallocated	**70,958**	79,711	69,718
Total members' equity	**301,278**	293,892	280,842
Total liabilities and members' equity	**$ 1,415,416**	$ 1,334,268	$ 1,238,988

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	**$ 63,140**	$ 53,027	$ 54,450
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**27,252**	19,832	21,654
Net interest income	**35,888**	33,195	32,796
Provision for (reversal of) allowance for loan losses	**(4,513)**	28	(45)
Net interest income after provision for (reversal of) allowance for loan losses	**40,401**	33,167	32,841
Noninterest Income			
Loan fees	**2,581**	4,907	3,129
Fees for financially related services	**16**	608	525
Patronage refunds from other Farm Credit institutions	**14,611**	21,136	18,345
Gains (losses) on sales of premises and equipment, net	**1,468**	490	130
Gains (losses) on other transactions	**(1,045)**	195	369
Insurance Fund refunds	**—**	—	232
Other noninterest income	**15**	11	—
Total noninterest income	**17,646**	27,347	22,730
Noninterest Expense			
Salaries and employee benefits	**15,505**	17,616	16,959
Occupancy and equipment	**1,248**	1,178	1,093
Insurance Fund premiums	**2,017**	1,485	858
Purchased services	**1,799**	885	737
Data processing	**431**	509	312
Other operating expenses	**3,891**	3,133	2,874
(Gains) losses on other property owned, net	**—**	(6)	168
Total noninterest expense	**24,891**	24,800	23,001
Income before income taxes	**33,156**	35,714	32,570
Provision for income taxes	**13**	3	—
Net income	**33,143**	35,711	32,570
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 33,143**	$ 35,711	$ 32,570

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2019	$ 30,162	$ 174,551	$ 68,879	$ 273,592
Comprehensive income			32,570	32,570
Capital stock/participation certificates issued/(retired), net	2,928			2,928
Dividends declared/paid	310		(310)	—
Patronage distribution				
Cash			(28,087)	(28,087)
Nonqualified retained earnings		3,121	(3,121)	—
Patronage distribution adjustment		52	(213)	(161)
Balance at December 31, 2020	$ 33,400	$ 177,724	$ 69,718	$ 280,842
Comprehensive income			35,711	35,711
Capital stock/participation certificates issued/(retired), net	2,893			2,893
Dividends declared/paid	164		(164)	—
Patronage distribution				
Cash			(25,554)	(25,554)
Balance at December 31, 2021	$ 36,457	$ 177,724	$ 79,711	$ 293,892
Comprehensive income			**33,143**	**33,143**
Capital stock/participation certificates issued/(retired), net	**(1,002)**			**(1,002)**
Dividends declared/paid	**284**		**(284)**	**—**
Patronage distribution				
Cash			**(24,500)**	**(24,500)**
Nonqualified retained earnings		**7,924**	**(7,924)**	**—**
Patronage distribution adjustment		**8,933**	**(9,188)**	**(255)**
Balance at December 31, 2022	**$ 35,739**	**$ 194,581**	**$ 70,958**	**$ 301,278**

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	**$ 33,143**	$ 35,711	$ 32,570
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,256**	1,116	932
Provision for (reversal of) allowance for loan losses	**(4,513)**	28	(45)
(Gains) losses on other property owned	**—**	(9)	168
(Gains) losses on sales of premises and equipment, net	**(1,468)**	(490)	(130)
(Gains) losses on other transactions	**1,045**	(195)	(369)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**(2,987)**	(351)	3,031
(Increase) decrease in accounts receivable	**12,385**	(2,888)	(5,478)
(Increase) decrease in other assets	**628**	(510)	(568)
Increase (decrease) in accrued interest payable	**1,213**	121	(611)
Increase (decrease) in accounts payable	**815**	520	(415)
Increase (decrease) in other liabilities	**43**	(1,311)	4,335
Total adjustments	**8,417**	(3,969)	850
Net cash provided by (used in) operating activities	**41,560**	31,742	33,420
Cash flows from investing activities:			
Net (increase) decrease in loans	**(81,722)**	(89,206)	(43,915)
(Increase) decrease in equity investments in other Farm Credit institutions	**(5,698)**	1,072	1,500
Purchases of premises and equipment	**(1,084)**	(4,925)	(2,005)
Proceeds from sales of premises and equipment	**2,142**	589	119
Proceeds from sales of other property owned	**—**	296	908
Net cash provided by (used in) investing activities	**(86,362)**	(92,174)	(43,393)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**71,783**	85,519	21,798
Net increase (decrease) in advanced conditional payments	**(89)**	117	8
Capital stock and participation certificates issued/(retired), net	**(1,002)**	2,893	2,928
Patronage refunds and dividends paid	**(25,803)**	(28,095)	(18,082)
Net cash provided by (used in) financing activities	**44,889**	60,434	6,652
Net increase (decrease) in cash	**87**	2	(3,321)
Cash, beginning of period	**6**	4	3,325
Cash, end of period	**$ 93**	$ 6	$ 4
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ —**	$ 287	$ 110
Estimated cash dividends or patronage distributions declared or payable	**24,500**	25,554	28,087
Dividends declared or payable in shares of preferred stock	**284**	164	310
Supplemental information:			
Interest paid	**$ 26,039**	$ 19,711	$ 22,265
Taxes (refunded) paid, net	**11**	—	—

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:** AgCarolina Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Beaufort, Bertie, Camden, Carteret, Chowan, Craven, Currituck, Dare, Edgecombe, Franklin, Gates, Granville, Greene, Halifax, Hertford, Hyde, Johnston, Jones, Lenoir, Martin, Nash, Northampton, Onslow, Pamlico, Pasquotank, Perquimans, Pitt, Tyrrell, Vance, Wake, Warren, Washington, Wayne, and Wilson in the state of North Carolina.

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 (the 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 AgFirst 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 lending agreement between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

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

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

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

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA.

Certain amounts in the prior year financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or total members' equity of prior years.

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

B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full. A formal restructuring may also cure a past due status.

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

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

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

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

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

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

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

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

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Association uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the ratings carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows significantly as a loan moves from a 9 to 10 (other assets especially mentioned) and grows more significantly as a loan moves to a substandard viable level of 11. A substandard non-viable rating of 12 indicates that the probability of default is almost certain. Loans risk rated 13 or 14 are generally written off.

C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value.

D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) on Other Property Owned, Net in the Consolidated Statements of Comprehensive Income.

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized. Premises and equipment are evaluated for impairment whenever events or circumstances indicate that the carrying value of the asset may not be recoverable.

From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in Other Assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-down of property held for sale is recorded as a loss in the period identified.

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

Equity Investments in Other Farm Credit System Institutions

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

Other Investments

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

Investment Income

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

G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the 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.

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.

Deferred Compensation Plan
The Association also sponsors a long-term deferred compensation program for certain key employees. This plan is nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

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. **Accounts Receivable:** The Association records patronage refunds from the Bank on an accrual basis. Patronage refunds due from the Bank for the years ended December 31, 2022, 2021, and 2020 of $8,748, $20,771, and $17,794, respectively, are reflected in Accounts Receivable on the Consolidated Balance Sheets.

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. The methods used approximate the exit price notion in current guidance at a materially acceptable level. 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, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.

- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31, 2022	December 31, 2021	December 31, 2020
Real estate mortgage	$ 785,221	$ 755,579	$ 683,095
Production and intermediate-term	451,508	423,382	411,724
Loans to cooperatives	3,156	2,595	4,488
Processing and marketing	64,436	50,684	47,451
Farm-related business	17,264	14,760	10,074
Communication	3,062	(2)	1,737
Power and water/waste disposal	431	310	9
Rural residential real estate	36,787	33,552	33,978
International	780	–	–
Total loans	$ 1,362,645	$ 1,280,860	$ 1,192,556

A substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present the principal balance of participation loans at periods ended:

December 31, 2022

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 13,242	$ 28,649	$ –	$ –	$ –	$ –	$ 13,242	$ 28,649
Production and intermediate-term	22,841	47,247	5,726	149,838	–	–	28,567	197,085
Loans to cooperatives	3,165	–	–	–	–	–	3,165	–
Processing and marketing	28,246	14,894	1,381	–	–	–	29,627	14,894
Farm-related business	295	–	74	–	–	–	369	–
Communication	3,071	–	–	–	–	–	3,071	–
Power and water/waste disposal	434	–	–	–	–	–	434	–
International	782	–	–	–	–	–	782	–
Total	$ 72,076	$ 90,790	$ 7,181	$ 149,838	$ –	$ –	$ 79,257	$ 240,628

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	$ 10,807	$ 27,923	$ –	$ –	$ –	$ –	$ 10,807	$ 27,923
Production and intermediate-term	22,423	53,892	3,947	163,038	–	–	26,370	216,930
Loans to cooperatives	2,601	–	–	–	–	–	2,601	–
Processing and marketing	16,251	25,573	1,116	–	–	–	17,367	25,573
Farm-related business	268	27	118	–	–	–	386	27
Power and water/waste disposal	311	–	–	–	–	–	311	–
Total	$ 52,661	$ 107,415	$ 5,181	$ 163,038	$ –	$ –	$ 57,842	$ 270,453

	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	$ 9,556	$ 39,981	$ –	$ 1,387	$ –	$ –	$ 9,556	$ 41,368
Production and intermediate-term	17,955	60,609	3,991	173,159	–	–	21,946	233,768
Loans to cooperatives	4,492	–	–	–	–	–	4,492	–
Processing and marketing	19,890	26,569	1,171	–	–	–	21,061	26,569
Farm-related business	271	194	161	–	–	–	432	194
Communication	1,740	–	–	–	–	–	1,740	–
Power and water/waste disposal	10	–	–	–	–	–	10	–
Total	$ 53,914	$ 127,353	$ 5,323	$ 174,546	$ –	$ –	$ 59,237	$ 301,899

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	95.15%	93.31%	88.77%
OAEM	3.88	4.62	4.98
Substandard/doubtful/loss	0.97	2.07	6.25
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	94.30%	91.34%	86.57%
OAEM	3.97	5.78	7.19
Substandard/doubtful/loss	1.73	2.88	6.24
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	97.15%	94.85%	94.36%
OAEM	2.85	1.85	5.64
Substandard/doubtful/loss	–	3.30	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	94.68%	99.61%	97.15%
OAEM	5.32	0.39	0.48
Substandard/doubtful/loss	–	–	2.37
	100.00%	100.00%	100.00%

	December 31, 2022	2021	2020
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	98.62%	98.52%	97.90%
OAEM	1.31	1.47	1.22
Substandard/doubtful/loss	0.07	0.01	0.88
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Total loans:			
Acceptable	95.08%	92.94%	88.61%
OAEM	3.79	4.75	5.60
Substandard/doubtful/loss	1.13	2.31	5.79
	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	$ 2,264	$ 2,468	$ 4,732	$ 789,928	$ 794,660
Production and intermediate-term	159	1,106	1,265	457,689	458,954
Loans to cooperatives	–	–	–	3,168	3,168
Processing and marketing	–	–	–	64,750	64,750
Farm-related business	–	–	–	17,423	17,423
Communication	–	–	–	3,064	3,064
Power and water/waste disposal	–	–	–	432	432
Rural residential real estate	237	–	237	36,683	36,920
International	–	–	–	796	796
Total	$ 2,660	$ 3,574	$ 6,234	$ 1,373,933	$ 1,380,167

	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	$ 829	$ 771	$ 1,600	$ 762,763	$ 764,363
Production and intermediate-term	625	222	847	427,884	428,731
Loans to cooperatives	–	–	–	2,597	2,597
Processing and marketing	–	–	–	50,895	50,895
Farm-related business	43	–	43	14,790	14,833
Communication	–	–	–	(2)	(2)
Power and water/waste disposal	–	–	–	310	310
Rural residential real estate	–	–	–	33,668	33,668
Total	$ 1,497	$ 993	$ 2,490	$ 1,292,905	$ 1,295,395

	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	$ 2,262	$ 4,210	$ 6,472	$ 684,971	$ 691,443
Production and intermediate-term	647	2,134	2,781	414,385	417,166
Loans to cooperatives	–	–	–	4,489	4,489
Processing and marketing	–	–	–	47,691	47,691
Farm-related business	139	179	318	9,814	10,132
Communication	–	–	–	1,737	1,737
Power and water/waste disposal	–	–	–	9	9
Rural residential real estate	–	1	1	34,072	34,073
Total	$ 3,048	$ 6,524	$ 9,572	$ 1,197,168	$ 1,206,740

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

	December 31,		
	2022	2021	2020
Nonaccrual loans:			
Real estate mortgage	$ 3,937	$ 3,260	$ 11,634
Production and intermediate-term	5,003	5,775	13,866
Processing and marketing	–	1,680	–
Farm-related business	–	–	179
Rural residential real estate	–	5	18
Total	$ 8,940	$ 10,720	$ 25,697
Accruing restructured loans:			
Real estate mortgage	$ 2,568	$ 2,932	$ 1,476
Production and intermediate-term	514	640	218
Total	$ 3,082	$ 3,572	$ 1,694
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 12,022	$ 14,292	$ 27,391
Other property owned	–	–	–
Total nonperforming assets	$ 12,022	$ 14,292	$ 27,391
Nonaccrual loans as a percentage of total loans	0.66%	0.84%	2.15%
Nonperforming assets as a percentage of total loans and other property owned	0.88%	1.12%	2.30%
Nonperforming assets as a percentage of capital	3.99%	4.86%	9.75%

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

	December 31,		
	2022	2021	2020
Impaired nonaccrual loans:			
Current as to principal and interest	$ 5,193	$ 9,610	$ 18,621
Past due	3,747	1,110	7,076
Total	$ 8,940	$ 10,720	$ 25,697
Impaired accrual loans:			
Restructured	$ 3,082	$ 3,572	$ 1,694
90 days or more past due	–	–	–
Total	$ 3,082	$ 3,572	$ 1,694
Total impaired loans	$ 12,022	$ 14,292	$ 27,391
Additional commitments to lend	$ –	$ 4,300	$ 3,740

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	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2022 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 1,169	$ 1,167	$ 66	$ 1,390	$ 132
Production and intermediate-term	935	1,540	130	1,112	106
Total	$ 2,104	$ 2,707	$ 196	$ 2,502	$ 238
With no related allowance for credit losses:					
Real estate mortgage	$ 5,336	$ 7,007	$ –	$ 6,345	$ 605
Production and intermediate-term	4,582	6,528	–	5,447	519
Total	$ 9,918	$ 13,535	$ –	$ 11,792	$ 1,124
Total:					
Real estate mortgage	$ 6,505	$ 8,174	$ 66	$ 7,735	$ 737
Production and intermediate-term	5,517	8,068	130	6,559	625
Total	$ 12,022	$ 16,242	$ 196	$ 14,294	$ 1,362

Impaired loans:	December 31, 2021 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2021 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	5,237	6,826	1,659	8,247	573
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 5,237	$ 6,826	$ 1,659	$ 8,247	$ 573
With no related allowance for credit losses:					
Real estate mortgage	$ 6,192	$ 7,924	$ –	$ 9,752	$ 677
Production and intermediate-term	1,178	2,338	–	1,855	128
Processing and marketing	1,680	1,700	–	2,646	184
Farm-related business	–	–	–	–	–
Rural residential real estate	5	104	–	7	1
Total	$ 9,055	$ 12,066	$ –	$ 14,260	$ 990
Total:					
Real estate mortgage	$ 6,192	$ 7,924	$ –	$ 9,752	$ 677
Production and intermediate-term	6,415	9,164	1,659	10,102	701
Processing and marketing	1,680	1,700	–	2,646	184
Farm-related business	–	–	–	–	–
Rural residential real estate	5	104	–	7	1
Total	$ 14,292	$ 18,892	$ 1,659	$ 22,507	$ 1,563

Impaired loans:	December 31, 2020 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2020 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 3,398	$ 3,587	$ 352	$ 3,395	$ 247
Production and intermediate-term	9,378	11,021	2,217	9,368	680
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 12,776	$ 14,608	$ 2,569	$ 12,763	$ 927
With no related allowance for credit losses:					
Real estate mortgage	$ 9,712	$ 11,971	$ –	$ 9,701	$ 704
Production and intermediate-term	4,706	6,221	–	4,700	341
Farm-related business	179	190	–	179	13
Rural residential real estate	18	201	–	18	1
Total	$ 14,615	$ 18,583	$ –	$ 14,598	$ 1,059
Total:					
Real estate mortgage	$ 13,110	$ 15,558	$ 352	$ 13,096	$ 951
Production and intermediate-term	14,084	17,242	2,217	14,068	1,021
Farm-related business	179	190	–	179	13
Rural residential real estate	18	201	–	18	1
Total	$ 27,391	$ 33,191	$ 2,569	$ 27,361	$ 1,986

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2021	$ 6,977	$ 5,573	$ 624	$ –	$ 3	$ 307	$ –	$ 13,484
Charge-offs	(70)	(10)	–	–	–	–	–	(80)
Recoveries	22	121	–	–	–	–	–	143
Provision of loan losses	(1,771)	(2,625)	(73)	20	–	(69)	5	(4,513)
Balance at December 31, 2022	$ 5,158	$ 3,059	$ 551	$ 20	$ 3	$ 238	$ 5	$ 9,034
Balance at December 31, 2020	$ 6,942	$ 6,193	$ 594	$ 17	$ –	$ 325	$ –	$ 14,071
Charge-offs	(877)	(55)	–	–	–	–	–	(932)
Recoveries	161	156	–	–	–	–	–	317
Provision for loan losses	751	(721)	30	(17)	3	(18)	–	28
Balance at December 31, 2021	$ 6,977	$ 5,573	$ 624	$ –	$ 3	$ 307	$ –	$ 13,484
Balance at December 31, 2019	$ 6,504	$ 7,297	$ 527	$ 17	$ –	$ 333	$ –	$ 14,678
Charge-offs	(554)	(116)	–	–	–	–	–	(670)
Recoveries	52	56	–	–	–	–	–	108
Provision for loan losses	940	(1,044)	67	–	–	(8)	–	(45)
Balance at December 31, 2020	$ 6,942	$ 6,193	$ 594	$ 17	$ –	$ 325	$ –	$ 14,071
Allowance on loans evaluated for impairment:								
Individually	$ 66	$ 130	$ –	$ –	$ –	$ –	$ –	$ 196
Collectively	5,092	2,929	551	20	3	238	5	8,838
Balance at December 31, 2022	$ 5,158	$ 3,059	$ 551	$ 20	$ 3	$ 238	$ 5	$ 9,034
Individually	$ –	$ 1,659	$ –	$ –	$ –	$ –	$ –	$ 1,659
Collectively	6,977	3,914	624	–	3	307	–	11.825
Balance at December 31, 2021	$ 6,977	$ 5,573	$ 624	$ –	$ 3	$ 307	–	$ 13.484
Individually	$ 352	$ 2,217	$ –	$ –	$ –	$ –	$ –	$ 2,569
Collectively	6,590	3,976	594	17	–	325	–	11,502
Balance at December 31, 2020	$ 6,942	$ 6,193	$ 594	$ 17	$ –	$ 325	$ –	$ 14,071
Recorded investment in loans evaluated for impairment:								
Individually	$ 6,452	$ 5,381	$ –	$ –	$ –	$ –	$ –	$ 11,833
Collectively	788,208	453,573	85,341	3,064	432	36,920	796	1,368,334
Balance at December 31, 2022	$ 794,660	$ 458,954	$ 85,341	$ 3,064	$ 432	$ 36,920	$ 796	$ 1,380,167
Individually	$ 6,192	$ 6,415	$ 1,680	$ –	$ –	$ 5	$ –	$ 14,292
Collectively	758,171	422,316	66,645	(2)	310	33,663	–	1,281,103
Balance at December 31, 2021	$ 764,363	$ 428,731	$ 68,325	$ (2)	$ 310	$ 33,668	$ –	$ 1,295,395
Individually	$ 13,110	$ 14,084	$ 179	$ –	$ –	$ 18	$ –	$ 27,391
Collectively	678,333	403,082	62,133	1,737	9	34,055	–	1,179,349
Balance at December 31, 2020	$ 691,443	$ 417,166	$ 62,312	$ 1,737	$ 9	$ 34,073	$ –	$ 1,206,740

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $23,020, $22,764 and $20,160 at December 31, 2022, 2021, and 2020, respectively. Fees paid for such guarantee commitments totaled less than $1 for 2022 and 2021 and $1 for 2020. 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	$ 32	$ –	$ –	$ 32	
Production and intermediate-term	–	5,270	–	5,270	
Total	$ 32	$ 5,270	$ –	$ 5,302	
Post-modification:					
Real estate mortgage	$ 32	$ –	$ –	$ 32	$ –
Production and intermediate-term	–	5,308	–	5,308	–
Total	$ 32	$ 5,308	$ –	$ 5,340	$ –

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
	Year Ended December 31, 2021				
Pre-modification:					
Real estate mortgage	$ 865	$ 40	$ 1,026	$ 1,931	
Production and intermediate-term	–	5,707	456	6,163	
Total	$ 865	$ 5,747	$ 1,482	$ 8,094	
Post-modification:					
Real estate mortgage	$ 865	$ 40	$ 1,050	$ 1,955	$ (10)
Production and intermediate-term	–	7,606	457	8,063	(15)
Total	$ 865	$ 7,646	$ 1,507	$ 10,018	$ (25)

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
	Year Ended December 31, 2020				
Pre-modification:					
Real estate mortgage	$ –	$ 1,645	$ –	$ 1,645	
Production and intermediate-term	–	4,683	–	4,683	
Total	$ –	$ 6,328	$ –	$ 6,328	
Post-modification:					
Real estate mortgage	$ –	$ 1,645	$ –	$ 1,645	$ –
Production and intermediate-term	–	6,173	–	6,173	(1)
Total	$ –	$ 7,818	$ –	$ 7,818	$ (1)

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.

Defaulted Troubled Debt Restructurings	Year Ended December 31, 2022	2021	2020
Real estate mortgage	$ 32	$ –	$ –
Production and intermediate-term	3,994	–	–
Total	$ 4,026	$ –	$ –

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 December 31, 2022	2021	2020	Nonaccrual TDRs December 31, 2022	2021	2020
Real estate mortgage	$ 3,373	$ 3,748	$ 3,794	$ 805	$ 816	$ 2,318
Production and intermediate-term	5,264	5,996	5,632	4,750	5,356	5,414
Total loans	$ 8,637	$ 9,744	$ 9,426	$ 5,555	$ 6,172	$ 7,732
Additional commitments to lend	$ –	$ 2,000	$ 2,121			

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions

Equity investments in other Farm Credit 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.

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 $15,878, $10,243, and $11,332 at December 31, 2022, 2021, and 2020, respectively. The Association owned 4.15 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, $486 million for 2021, and $418 million for 2020. In addition, the Association had investments of $729 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	$ 2,469	$ 2,906	$ 2,902
Buildings and improvements	13,565	14,255	11,156
Furniture and equipment	6,256	6,177	5,293
	22,290	23,338	19,351
Less: accumulated depreciation	7,568	7,770	7,493
Total	$ 14,722	$ 15,568	$ 11,858

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 5.07 percent for LIBOR-based loans, 5.08 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 5.26 percent for Prime-based loans, and the weighted average remaining maturities were 2.8 years, 5.0 years, and 0.8 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 2.82 percent, and the weighted average remaining maturity was 11.1 years at December 31, 2022. The weighted average interest rate on all interest-bearing notes payable was 3.39 percent and the weighted average remaining maturity was 8.8 years at December 31, 2022. Variable rate and fixed rate notes payable represent approximately 0.08 percent and 99.92 percent, respectively, of total notes payable at December 31, 2022. 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. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of $1 thousand or two percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

   The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but does not always make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation, the total balance of which would not exceed $4,204, representing the total outstanding value of capital stock and participation certificates at December 31, 2022.

   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.

   The Association provides customers, through its Preferred Stock Program, the ability to purchase Class A Preferred Stock (Preferred Stock) at the Preferred Stock's par value of five dollars per share to holders of any class of Association common stock or participation certificates. The minimum initial subscription of Preferred Stock is one hundred shares for a total of five hundred dollars. Preferred Stock is a non-voting class of stock that pays a quarterly dividend based on dividend rates set in advance by the Board of Directors. All dividends are paid in shares of stock at par value at the end of the record date, normally each quarter end, provided that holders have a Preferred Stock outstanding balance at the time of the record date. Holders of Preferred Stock must also have an outstanding loan with the Association, and upon loan payoff must retire all shares of Preferred Stock within 90 days.

B. **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	4.5%	2.5%	7.0%	19.76%	19.47%	20.27%
Tier 1 Capital	6.0%	2.5%	8.5%	19.76%	19.47%	20.27%
Total Capital	8.0%	2.5%	10.5%	20.73%	20.58%	21.52%
Permanent Capital	7.0%	0.0%	7.0%	22.76%	22.73%	23.36%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	19.11%	19.62%	20.46%
URE and UREE Leverage	1.5%	0.0%	1.5%	18.81%	19.64%	20.62%

** 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.

C. **Description of Equities:** The Association is authorized to issue or have outstanding Class A and Class D Preferred Stock, Class E and Class C Common Stock, Class 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
A Preferred/Nonvoting	No	6,306,852	$ 31,535
C Common/Voting	No	765,049	3,825
C Participation Certificates/Nonvoting	No	75,845	379
Total Capital Stock and Participation Certificates		7,147,746	$ 35,739

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 may 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.

Qualified allocated equities shall be retired for a cash distribution 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 $194,581 of nonqualified retained 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 patronage-sourced 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 and leases 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 dividend paid on Classes E and C Common Stock or participation certificates for such year. The rate of dividends on Classes E and C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. During 2022 stock dividends of $284 were declared and distributed on Class A Preferred Stock.

All qualified and nonqualified surplus may only be retired at the discretion of the Board. 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.

Transfer

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

Impairment

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

a) ***First***, to allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;
b) ***Second***, to allocated surplus evidenced by qualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;
c) ***Third***, to Class C Common Stock, Class E Common Stock, and Class C Participation Certificates issued

and outstanding, pro rata until such stock is fully impaired;

d) ***Fourth***, to Class D Preferred Stock issued and outstanding, if any; and

e) ***Fifth***, to Class A Preferred Stock issued and outstanding, if any.

Liquidation

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

a) ***First,*** to the holders of Class A Preferred Stock, if any, pro rata, until an amount equal to the aggregate par value of all shares then issued and outstanding, plus declared but unpaid dividends, has been distributed to such holders;

b) ***Second,*** to the holders of Class D Preferred Stock, if any, pro rata, until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders;

c) ***Third,*** to the holders of Class C Common Stock, Class E Common Stock, and Class C Participation Certificates pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;

d) ***Fourth,*** to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;

e) ***Fifth,*** to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed; and

f) ***Sixth,*** insofar as is practicable, all unallocated surplus issued after January 1, 1995, shall be distributed to patrons of the Association from the period beginning January 1, 1995 through the date of liquidation.

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 summarizes 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	$ 3,860	$ –	$ –	$ 3,860
Nonrecurring assets				
Impaired loans*	$ –	$ –	$ 2,675	$ 2,675
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	$ 4,436	$ –	$ –	$ 4,436
Nonrecurring assets				
Impaired loans**	$ –	$ –	$ 3,778	$ 3,778
Other property owned	$ –	$ –	$ –	$ –

	December 31, 2020			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 3,978	$ –	$ –	$ 3,978
Nonrecurring assets				
Impaired loans***	$ –	$ –	$ 12,087	$ 12,087
Other property owned	$ –	$ –	$ –	$ –

**Carrying value of impaired loans is the balance of loans with a related specific reserve ($2,104) less related specific reserves ($196) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($767).*

*** Carrying value of impaired loans is the balance of loans with a related specific reserve ($5,237) less related specific reserves ($1,659) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($200).*

****Carrying value of impaired loans is the balance of loans with a related specific reserve ($12,776) less related specific reserves ($2,569) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($1,880).*

Valuation Techniques

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

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

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

Note 9 — Employee Benefit Plans

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

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

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required to be filed. As such, the following information is not available for 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 $899 for 2022, $2,104 for 2021, and $1,727 for 2020. At December 31, 2022, 2021, and 2020, the total liability balance for the FAP Plan was $32,568, $39,135, and $114,449, respectively. The FAP Plan was

95.81 percent, 96.17 percent, and 89.63 percent funded to the projected benefit obligation as of December 31, 2022, 2021, and 2020, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were $380 for 2022, $368 for 2021, and $379 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. This 401(k) plan requires the Association to match 100 percent of employee optional contributions up to a maximum employee 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 $908, $882, and $845 for the years ended December 31, 2022, 2021 and 2020, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

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

The Association sponsors a nonqualified long-term deferred compensation program for certain Association employees and a nonqualified supplemental 401(k) plan. The deferred compensation program provides deferred compensation benefits to encourage focus on strategies that are in the long-term best interest of the Association and its shareholders. Under the program the funds are set up in a Trust owned by the Association. Compensation is deferred until a later date upon which the employee meets certain vesting guidelines, employment is terminated, or by Board approval. All current and future assets used by the Association to fund this program will remain general assets of the Association until payment or distribution is made. Employer contributions to this plan were $250, $227, and $198 for the years ended December 31, 2022, 2021, and 2020, respectively. At December 31, 2022, 2021, and 2020, the Association had a deferred compensation liability related to this plan of $3,818, $4,278 and $3,868 included within Other Liabilities on the Consolidated Balance Sheets. Expenses of the nonqualified 401(k) plan included in noninterest expenses were $9, $8, and $6 for 2022, 2021, and 2020, respectively.

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2022 amounted to $27,480. During 2022, $13,324 of new loans were made and repayments totaled $12,751. In addition, net loans of $613 were no longer classified as related party loans. 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, $294,783 of commitments to extend credit and no of 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 $2,316 with expiration dates ranging from January 1, 2023 to September 1, 2027. The maximum potential amount of future payments that may be required under these guarantees was $2,316.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2022	2021	2020
Current:			
Federal	$ 12	$ 3	$ –
State	1	–	–
Total Current	13	3	–
Deferred:			
Federal	–	–	–
State	–	–	–
Total Deferred	–	–	–
Total provision (benefit) for income taxes	$ 13	$ 3	$ –

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

	December 31,		
	2022	2021	2020
Federal tax at statutory rate	$ 6,963	$ 7,499	$ 6,840
State tax, net	1	1	–
Effect of non-taxable FLCA subsidiary	(1,168)	(1,916)	(920)
Patronage distributions	(5,145)	(5,366)	(5,898)
Change in deferred tax asset valuation allowance	(702)	(228)	(54)
Deferred tax rate change	–	–	33
Other	64	13	(1)
Provision (benefit) for income taxes	$ 13	$ 3	$ –

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

	December 31,		
	2022	2021	2020
Deferred income tax assets:			
Allowance for loan losses	$ 1,058	$ 1,417	$ 1,362
Nonaccrual loan interest	334	246	529
Gross deferred tax assets	1,392	1,663	1,891
Less: valuation allowance	(962)	(1,663)	(1,891)
Gross deferred tax assets, net of valuation allowance	430	–	–
Deferred income tax liabilities:			
Special patronage	(430)	–	–
Gross deferred tax asset (liability)	–	–	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2022, deferred income taxes have not been provided by the Association on approximately $5.5 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $962, $1,663, and $1,891 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	$ 8,154	$ 8,852	$ 9,109	$ 9,773	$ 35,888
Provision for (reversal of) allowance for loan losses	–	–	(444)	(4,069)	(4,513)
Noninterest income (expense), net and taxes	(2,279)	(2,888)	(3,412)	1,321	(7,258)
Net income	$ 5,875	$ 5,964	$ 6,141	$ 15,163	$ 33,143

	2021				
	First	Second	Third	Fourth	Total
Net interest income	$ 7,595	$ 7,932	$ 8,754	$ 8,914	$ 33,195
Provision for (reversal of) allowance for loan losses	–	346	1	(319)	28
Noninterest income (expense), net and taxes	(3,154)	(585)	(3,278)	9,561	2,544
Net income	$ 4,441	$ 7,001	$ 5,475	$ 18,794	$ 35,711

	2020				
	First	Second	Third	Fourth	Total
Net interest income	$ 7,969	$ 8,040	$ 8,433	$ 8,354	$ 32,796
Provision for (reversal of) allowance for loan losses	–	903	509	(1,457)	(45)
Noninterest income (expense), net and taxes	(2,765)	(2,324)	(2,443)	7,261	(271)
Net income	$ 5,204	$ 4,813	$ 5,481	$ 17,072	$ 32,570

Note 14 — Merger Activity

Following approval by AgFirst, the FCA, and shareholders, effective January 1, 2023, the Association merged with Cape Fear Farm Credit, ACA. The merger was accounted for under the acquisition method of accounting guidance in accordance with the FASB Accounting Standards Codification 805 Business Combinations (ASC 805).

Note 15 — Subsequent Events

The Association evaluated subsequent events and determined that, other than disclosed in Note 14, there were none requiring disclosure through March 9, 2023, which was the date the financial statements were issued.