AgCarolina Farm Credit, ACA

2023 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 2023 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 7, 2024

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, 2023. 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, 2023, 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, 2023. 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 7, 2024

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2023	2022	2021	2020	2019
Balance Sheet Data					
Cash	**$ 4**	$ 93	$ 6	$ 4	$ 3,325
Investments in debt securities	**2,409**	—	—	—	—
Loans	**2,613,222**	1,362,645	1,280,860	1,192,556	1,149,313
Allowance for loan losses	**(12,418)**	(9,034)	(13,484)	(14,071)	(14,678)
Net loans	**2,600,804**	1,353,611	1,267,376	1,178,485	1,134,635
Equity investments in other Farm Credit institutions	**42,599**	16,607	10,909	11,981	13,481
Other property owned	**—**	—	—	—	966
Other assets	**88,853**	45,105	55,977	48,518	44,419
Total assets	**$ 2,734,669**	$1,415,416	$1,334,268	$1,238,988	$1,196,826
Notes payable to AgFirst Farm Credit Bank*	**$ 2,155,900**	$1,072,805	$1,001,022	$ 915,503	$ 893,705
Accrued interest payable and other liabilities with maturities of less than one year	**78,884**	41,333	39,354	42,643	29,529
Total liabilities	**2,234,784**	1,114,138	1,040,376	958,146	923,234
Capital stock and participation certificates	**26,442**	35,739	36,457	33,400	30,162
Additional paid-in-capital	**65,531**	—	—	—	—
Retained earnings					
Allocated	**333,127**	194,581	177,724	177,724	174,551
Unallocated	**74,972**	70,958	79,711	69,718	68,879
Accumulated other comprehensive income (loss)	**(187)**	—	—	—	—
Total members' equity	**499,885**	301,278	293,892	280,842	273,592
Total liabilities and members' equity	**$ 2,734,669**	$1,415,416	$1,334,268	$1,238,988	$1,196,826
Statement of Income Data					
Net interest income	**$ 87,903**	$ 35,888	$ 33,195	$ 32,796	$ 32,134
Provision for (reversal of) allowance for loan losses	**9,081**	(4,513)	28	(45)	339
Noninterest income (expense), net	**(17,301)**	(7,258)	2,544	(271)	(6,230)
Net income	**$ 61,521**	$ 33,143	$ 35,711	$ 32,570	$ 25,565
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.38%**	2.45%	2.85%	2.73%	2.16%
Total members' equity	**11.83%**	10.57%	11.81%	11.18%	9.18%
Net interest income as a percentage of average earning assets	**3.51%**	2.73%	2.72%	2.82%	2.80%
Net (chargeoffs) recoveries to average loans	**(0.054)%**	0.005%	(0.050)%	(0.048)%	(0.015)%
Total members' equity to total assets	**18.28%**	21.29%	22.03%	22.67%	22.86%
Debt to members' equity (:1)	**4.47**	3.70	3.54	3.41	3.37
Allowance for loan losses to loans	**0.48%**	0.66%	1.05%	1.18%	1.28%
Permanent capital ratio	**18.16%**	22.76%	22.73%	23.36%	23.03%
Common equity tier 1 capital ratio	**17.28%**	19.76%	19.47%	20.27%	20.08%
Tier 1 capital ratio	**17.28%**	19.76%	19.47%	20.27%	20.08%
Total regulatory capital ratio	**17.86%**	20.73%	20.58%	21.52%	21.33%
Tier 1 leverage ratio**	**17.63%**	19.11%	19.62%	20.46%	20.23%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**17.37%**	18.81%	19.64%	20.62%	20.40%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 49,000**	$ 24,500	$ 25,554	$ 28,087	$ 17,916
Nonqualified retained earnings	**11,529**	7,924	—	3,121	5,972

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2024.*

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of AgCarolina Farm Credit, ACA, (Association) for the year ended December 31, 2023 with comparisons to the years ended December 31, 2022 and December 31, 2021. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements, and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" 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*, by calling 1-472-210-3281, or writing Charles M. Hester, Chief Financial Officer, AgCarolina Farm Credit, ACA, 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.

MERGER ACTIVITY

Cape Fear Farm Credit, ACA, merged with and into AgCarolina Farm Credit, ACA, (the Merger) effective January 1, 2023. AgCarolina Farm Credit, ACA retained its name and is headquartered in Greenville, NC.

The effects of the Merger are included in our financial position, results of operations and related metrics beginning January 1, 2023. Prior year results are not reflective of the Merger executed on January 1, 2023. Results of operations and equity reflect the results of legacy AgCarolina Farm Credit, ACA, through December 31, 2022, and the merged Association on January 1, 2023 and thereafter. Upon the closing of the Merger, loans increased $1.1 billion, liabilities increased $928.9 million, and equity increased $194.2 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations. See further information regarding the Merger within *Note 14 – Merger Activity,* of the Notes to the Consolidated Financial Statements.

The Merger was accounted for under the acquisition method of accounting guidance in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification 805 Business Combinations (ASC 805). As the accounting acquirer, AgCarolina Farm Credit, ACA recognized the identifiable assets acquired and liabilities assumed in the Merger as of the effective date at their respective fair values. The fair value of the net identifiable assets was substantially equal to the fair value of the equity interest exchanged in the Merger. As a result, no goodwill was recorded.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

The Association's financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Consideration of significant accounting policies is critical to the understanding of the Association's results of operations and financial position because some accounting policies require complex or subjective judgments and estimates that may affect the reported amount of certain assets or liabilities as well as the recognition of certain income and expense items. In many instances, management has to make judgements 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 our most significant critical accounting policies.

- *Allowance for credit losses* (ACL) — On January 1, 2023, the Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to credit losses. This guidance replaced the incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. The ACL comprises:

    - the allowance for loan losses which covers the Association's loan portfolio,
    - the ACL on unfunded commitments, and
    - the ACL on investment securities.

  The ACL takes into consideration relevant information about past events, current conditions and reasonable and supportable macroeconomic forecasts of future conditions. Management also considers the imprecision inherent in their process and methodology, which may lead to a management adjustment to the modeled ACL results. See Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements for additional information on the Association's policies and methodologies for determining the ACL. Changes in any of the above factors considered by management in the evaluation of losses in its loan portfolio, unfunded commitments and investment securities could result in a change in the ACL and have a direct impact on its provision for loan losses and results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active 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 active market exists. Management also utilizes significant estimates and assumptions to value items for which an observable active market does not exist. Examples of these items include: nonaccrual loans, other property owned, pension obligations, and certain investment securities and 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 asset or liability values, 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.

Loan Type	December 31, 2023		2022		2021	
Real estate mortgage	$ 1,512,362	57.87%	$ 785,221	57.63%	$ 755,579	59.00%
Production and intermediate term	763,728	29.23	451,508	33.13	423,382	33.05
Processing and marketing	128,145	4.90	64,436	4.73	50,684	3.96
Farm-related business	65,671	2.51	17,264	1.27	14,760	1.15
Rural residential real estate	57,200	2.19	36,787	2.70	33,552	2.62
Loans to cooperatives	40,299	1.54	3,156	0.23	2,595	0.20
Communication	23,207	0.89	3,062	0.22	(2)	–
Power and water/waste disposal	14,792	0.57	431	0.03	310	0.02
Lease receivables	4,209	0.16	–	–	–	–
International	3,565	0.14	780	0.06	–	–
Other (including mission related)	44	–	–	–	–	–
Total	$ 2,613,222	100.00%	$ 1,362,645	100.00%	$ 1,280,860	100.00%

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:

Branch	12/31/23	12/31/22	12/31/21
Capital Markets	11.99%	5.92%	1.44%
Kenansville	9.52	–	–
Greenville	7.90	14.07	14.21
Clinton	6.54	–	–
Smithfield	6.26	10.47	10.33
Rocky Mount	5.47	9.31	9.18
Elizabeth City	5.21	9.09	9.55
Williamston	5.14	9.93	10.05
La Grange	4.60	8.68	8.89
Louisburg	3.84	7.23	7.11
Commercial	3.45	–	–
Raeford	3.37	–	–
Elizabethtown	3.15	–	–
Harnett County	3.14	–	–
New Bern	3.11	5.85	5.66
Raleigh	2.99	5.46	5.39
Swan Quarter	2.69	4.80	5.95
Lumberton	2.58	–	–
Ahoskie	2.49	4.57	4.44
Burgaw	2.31	–	–
Halifax	2.10	3.90	3.69
Whiteville	1.62	–	–
Other	0.53	0.72	4.11
Total	100.0%	100.00%	100.0%

The geographic distribution of loans reflects the merged Association branches. The Merger is the primary reason for the year-over-year changes in the geographic distribution of loans by branches.

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 poultry, field crops, swine, forestry and corn, which constitute 62 percent of the 2023 loan portfolio.

	Percent of Portfolio		
Commodity Group	**2023**	**2022**	**2021**
Poultry	17.58%	7.78%	7.92%
Field Crops	14.60	22.14	22.53
Swine	11.52	4.98	5.32
Forestry	10.69	12.09	11.81
Corn	7.71	9.43	10.99
Grains	6.67	10.94	10.08
Other Real Estate	6.64	8.78	9.22
Cotton	4.81	8.06	7.70
Processing	3.80	1.97	1.46
Tree Fruits and Nuts	2.49	0.69	0.53
Cattle	2.38	2.87	2.85
Rural Home Loans	1.98	2.82	2.97
Nursery/Greenhouse	1.42	1.20	1.13
Dairy	1.24	0.50	0.43
Utilities	0.99	0.26	0.03
Tobacco	0.54	0.69	0.57
Other	4.94	4.80	4.46
Total	100.00%	100.00%	100.00%

The commodity segments for the Association reflect industry categories used by the Bank for District reporting. The Merger was the primary reason for the shift in commodity concentration and further increased diversification within our portfolio. Information for 2022 and 2021 were restated from the previous annual report to reflect industry categories used by the Bank for District reporting.

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 is well diversified from both a commodity and number of producers perspective. Further, many of the Association's members are diversified within their enterprise which also reduces overall risk exposure.

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.

The average daily balance in gross loan volume for twelve months ended December 31, 2023 continues to be well diversified with no significant industry or producer concentration.

During 2023, the Association continued to purchase and sell loan participations, both within and outside of the System. This program provides an important means for the Association to spread credit concentration risk and realize interest and fee income which may strengthen our capital position.

Loan Participations Purchased and Sold are summarized as follows:

Loan Participations	**2023**	**2022**	**2021**
Participations Purchased – FCS Institutions	$ 292,319	$ 79,257	$ 57,842
Participations Purchased – Non-FCS Institutions	27,877	–	–
Participations Sold	(942,593)	(240,628)	(270,453)
Total	$ (622,397)	$ (161,371)	$ (212,611)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the year ended December 31, 2023.

The Association began selling qualified long-term mortgage loans into the secondary market as a result of the Merger. For the period ended December 31, 2023, the Association originated loans for resale of $1,271 which were all sold into the secondary market. There was an additional $3,632 of purchased participations in loans held for sale at year end.

As a result of the Merger, the Association began maintaining a standby loan guarantee agreement with Farmer Mac, a separate entity of the Farm Credit System, to guarantee pools of loans. Under the terms of the agreement, Farmer Mac is obligated to purchase loans that default. At December 31, 2023, the principal balance of loans guaranteed by Farmer Mac was $21,128.

The Association also utilizes government guarantees to help reduce risk on individual loan relationships. At December 31, 2023, the balance of these guarantees was $49,388, compared to $23,020 at December 31, 2022 and $24,734 at December 31, 2021.

MISSION RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot program under the Mission Related Investments umbrella, as described in the following.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program was to help meet the growing and diverse financing needs of agricultural enterprises, agribusiness, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds are classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. At December 31, 2023, the Association had $2,409 in Rural America Bonds as compared to $0 at December 31, 2022 and December 31, 2021. They were all classified as investments in debt securities held to maturity and acquired through the Merger.

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.

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 Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

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

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

Credit Quality	2023	2022	2021
Acceptable & OAEM	98.60%	98.87%	97.69%
Substandard/doubtful/loss	1.40%	1.13%	2.31%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

	December 31,		
High-Risk Assets	**2023**	**2022***	**2021***
Nonaccrual loans	$ 12,135	$ 8,940	$ 10,720
Accruing restructured loans	–	3,082	3,572
Accruing loans 90 days or more past due	–	–	–
Total high-risk loans	12,135	12,022	14,292
Other property owned	–	–	–
Total high-risk assets	$ 12,135	$ 12,022	$ 14,292
Ratios			
Nonaccrual loans to total loans	0.46%	0.66%	0.84%
Nonperforming assets to total loans and other property owned	0.46%	0.88%	1.12%
High-risk assets to capital	2.43%	3.99%	4.86%

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

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $3,195 or 35.74 percent, after having decreased $1,780 or 16.60 percent in the previous year. The increase in 2023 was mainly due to the Merger and the transfer of several larger sized loans to nonaccrual status during the twelve month period. Of the $12,135 in nonaccrual volume at December 31, 2023, $2,858 or 23.55 percent was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status, compared to $5,193 or 58.08 percent and $9,610 or 89.64 percent at December 31, 2022 and 2021, respectively.

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. In calculating the allowance for loan losses, acquired loans as part of the Merger, were excluded in accordance with Generally Accepted Accounting Principles but accounted for in the fair value adjustments due to the Merger.

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*:	**2023**	**2022**	**2021**
Balance at beginning of year	$ 9,034	$ 13,484	$ 14,071
Cumulative effect of change in accounting principle	(4,357)	–	–
Charge-offs			
Real estate mortgage	(257)	(70)	(877)
Production and intermediate term	(1,148)	(10)	(55)
Agribusiness**	(13)	–	–
Total charge-offs	(1,418)	(80)	(932)
Recoveries			
Real estate mortgage	43	22	161
Production and intermediate term	34	121	156
Agribusiness**	1	–	–
Total recoveries	78	143	317
Net (charge-offs) recoveries	(1,340)	63	(615)
Provision for (reversal of allowance for) loan losses	9,081	(4,513)	28
Balance at end of year	$ 12,418	$ 9,034	$ 13,484
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.054)%	0.005%	(0.050)%

* *For periods prior to January 1, 2023, the allowance for loan losses was based on probable and estimable losses inherent in the loan portfolio.*
** *Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*

The allowance for loan losses increased by $3,384 in 2023 compared to 2022. The increase in allowance was primarily attributed to increases in specific reserves as nonaccrual volume and charge-off activity were higher in 2023.

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

Allowance for Loan Losses by Type*:	December 31, 2023	2022	2021
Real estate mortgage	$ 5,468	$ 5,158	$ 6,977
Production and intermediate term	5,391	3,059	5,573
Agribusiness**	1,319	551	624
Communication	24	20	–
Power and water/waste disposal	10	3	3
Rural residential real estate	42	238	307
International	2	5	–
Lease receivables	162	–	–
Total loans	$ 12,418	$ 9,034	$ 13,484

** For periods prior to January 1, 2023, the allowance for loan losses was based on probable and estimable losses inherent in the loan portfolio.*
*** Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*

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

Allowance for Loan Losses as a Percentage of:	December 31, 2023	2022	2021
Total loans	0.48%	0.66%	1.05%
Nonperforming loans	102.33%	75.15%	94.35%
Nonaccrual loans	102.33%	101.05%	125.78%

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, 2023 totaled $61,521, an increase of $28,378 or 85.62 percent, as compared to $33,143 for the same period of 2022. The change in net income was primarily driven by the favorable impact of the Merger on net interest income due to increased loan volume as well as higher noninterest income, partially offset by higher operating expenses and increased provision for loan losses.

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

Changes in Net Income:	2023-2022	2022-2021
Net income (prior year)	$ 33,143	$ 35,711
Increase (decrease) in net income due to:		
Interest income	110,392	10,113
Interest expense	58,377	7,420
Net interest income	52,015	2,693
Provision for loan losses	(13,594)	4,541
Noninterest income	11,066	(9,701)
Noninterest expense	(21,046)	(91)
Provision for income taxes	(63)	(10)
Total changes in income	28,378	(2,568)
Net income	$ 61,521	$ 33,143

Net Interest Income

Net interest income was $87,903, $35,888, and $33,195 in 2023, 2022, and 2021, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets, and cost of debt. The increase in net interest income was primarily due to the growth in the loan portfolio as a result of the Merger. 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
12/31/22 - 12/31/23			
Interest income	$55,952	$54,440	$110,392
Interest expense	26,442	31,935	58,377
Change in net interest income	$29,510	$22,505	$ 52,015
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

* *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	**2023**	**2022**	**2021**	**2023/ 2022**	**2022/ 2021**
Loan fees	$ 5,318	$ 2,581	$ 4,907	106.04 %	(47.40)%
Fees for financially related services	1,309	16	608	8,081.25	(97.37)
Patronage refunds from other Farm Credit institutions	23,023	14,611	21,136	57.57	(30.87)
Gains (losses) on sales of rural homes loans, net	9	–	–	100	–
Gains (losses) on sales of premises and equipment, net	112	1,468	490	(92.37)	199.59
Gains (losses) on other transactions	(1,062)	(1,045)	195	1.63	(635.90)
Other noninterest income	3	15	11	(80.00)	36.36
Total noninterest income	$ 28,712	$ 17,646	$ 27,347	62.71 %	(35.47)%

Noninterest income for the year ended 2023 increased $11,066 or 62.71% compared to the year ended 2022. The increase was attributed to an $8,412 increase in patronage refunds from other Farm Credit institutions, a $2,737 increase in loan fees, a $1,293 increase in fees for financially related services, and a $9 increase in gains on sales of rural home loans. The overall increase was offset by a $1,356 decrease in gains on sales of premises and equipment, a $17 increase in losses on other transactions, and a $12 decrease in other noninterest income.

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 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	**2023**	**2022**	**2021**	**2023/ 2022**	**2022/ 2021**
Salaries and employee benefits	$ 29,132	$ 15,505	$ 17,616	87.89%	(11.98)%
Occupancy and equipment	1,837	1,248	1,178	47.20	5.94
Insurance Fund premiums	3,660	2,017	1,485	81.46	35.82
Purchased services	2,560	1,799	885	42.30	103.28
Data processing	850	431	509	97.22	(15.32)
Other operating expenses	7,887	3,891	3,133	102.70	24.19
(Gains) losses on other property owned, net	11	–	(6)	100.00	(100.00)
Total noninterest expense	$ 45,937	$ 24,891	$ 24,800	84.55%	0.37 %

Noninterest expense for the year ended 2023 increased $21,046 or 84.55% compared to the year ended 2022. The increase was attributed to a $13,627 increase in salaries and employee benefits, a $3,996 increase in other operating expenses, and a $1,643 increase in insurance fund premiums. For 2023, the Farm Credit System Insurance Corporation (FCSIC) set premiums at 18 basis points on adjusted insured debt outstanding. 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 $761 increase in purchased services, a $589 increase in occupancy and equipment, a $419 increase in data processing, and an $11 increase in losses on other property owned.

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, 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 $2,111 decrease in salaries and employee benefits, and a $78 decrease in data processing.

Income Taxes

The Association recorded a provision for income taxes of $76 for the year ended December 31, 2023, as compared to a provision of $13 for 2022 and a provision of $3 for 2021. Refer to Note 2, *Summary of Significant Accounting Policies,(item J - 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	**12/31/23**	**12/31/22**	**12/31/21**
Return on average assets	2.38%	2.45%	2.85%
Return on average members' equity	11.83%	10.57%	11.81%
Net interest income as a percentage of average earning assets	3.51%	2.73%	2.72%
Net (charge-offs) recoveries to average loans	(0.054)%	0.005%	(0.050)%

The decrease in return on average assets (ROA) for 2023 compared to 2022 was primarily due to special patronage and reversal of qualitative reserves in the allowance for loan loss recognized in 2022. The increase in return on average member's equity (ROE) for 2023 compared to 2022 was primarily due to merger fair value adjustments. Higher net interest resulted in a higher return on average earning assets in 2023, as compared to 2022.

A key factor in the growth of net income for future years will be continued improvement in net interest income 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 Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2023, was $2,155,900 as compared to $1,072,805 at December 31, 2022 and $1,001,022 at December 31, 2021. The increase of 100.96 percent compared to December 31, 2022 was attributed to the Merger, as well as an increase in loan volume. The average volume of outstanding notes payable to the Bank was $2,037,021 and $1,021,833 for the years ended December 31, 2023 and 2022, respectively. The increase was primarily attributed to the Merger. 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 notes payable to the Bank. 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, 2023.

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable, and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate and the Secured Overnight Finance Rate (SOFR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Relationship with the Bank

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

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

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

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 2023 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2023 increased 65.92 percent to $499,885 from the December 31, 2022 total of $301,278. At December 31, 2022, total members' equity increased 2.51 percent from the December 31, 2021 total of $293,892. The 2023 increase was attributed to the Merger, net income, patronage distribution, net impact of capital stock/participation certificates issued/retired, and a cumulative effect of change in accounting principle. See statement "Consolidated Statements of Changes in Members' Equity" in this Annual Report for further details.

Preferred stock at December 31, 2023 decreased 38.33 percent to $19,446 from the December 31, 2022 total of $31,535. The majority of this decrease was related to decreased purchases and increased retirements 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, 2023, $586 in dividends were declared and paid in shares of stock, as compared to $284 for the same period in 2022. The average dividend rate paid on shares of preferred stock during 2023 was 2.31 percent, which was 158 basis points more than 2022. Excluding preferred stock, capital stock and participation certificates were $6,996 on December 31, 2023, compared to $4,204 on December 31, 2022. The increase is attributed to the Merger and growth in the number of loans outstanding.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. For all periods represented, the Association exceeded the minimum regulatory standard for all of the applicable ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	2.5%	7.0%	17.28%	19.76%	19.47%
Tier 1 Capital Ratio	6.0%	2.5%	8.5%	17.28%	19.76%	19.47%
Total Capital Ratio	8.0%	2.5%	10.5%	17.86%	20.73%	20.58%
Permanent Capital Ratio	7.0%	0.0%	7.0%	18.16%	22.76%	22.73%
Non-risk-adjusted:						
Tier 1 Leverage Ratio*	4.0%	1.0%	5.0%	17.63%	19.11%	19.62%
UREE Leverage Ratio	1.5%	0.0%	1.5%	17.37%	18.81%	19.64%

** 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.

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

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

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to non-patronage sourced business, the remaining consolidated net earnings are eligible for allocation to borrowers\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 $49,000 in 2023, $24,500 in 2022, and $25,554 in 2021.

REGULATORY MATTERS

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

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

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

On April 14, 2022, the FCA approved a final rule that amends certain regulations to address changes in accounting principles generally accepted in the United States. Such changes reflect the Current Expected Credit Losses (CECL) methodology that replaced the incurred loss methodology upon adoption. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities are included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets.

Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets are not eligible for inclusion in a System institution's Tier 2 capital. The regulation did not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. In addition, the regulation did not include an exclusion for the CECL day 1 cumulative effective adjustment from the "safe harbor" deemed prior approval provision. The rule became effective on January 1, 2023.

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

LIBOR Transition

U.S. dollar LIBOR settings (including with respect to overnight, one-, three-, six-, and twelve-month tenors of U.S. dollar LIBOR) were discontinued or declared non-representative immediately after June 30, 2023.

Leading up to the discontinuance of LIBOR on June 30, 2023, the Association implemented LIBOR transition plans in accordance with FCA's guidance to address the risks associated with the discontinuation of LIBOR.

To the extent necessary, substantially all financial instruments that referenced LIBOR were amended to incorporate adequate fallbacks, including, where appropriate, the Secured Overnight Financing Rate (SOFR)-based fallbacks recommended by the Alternative Reference Rates Committee (ARRC).

To the extent that any Association contracts did not have or were not amended to include adequate fallback provisions to replace LIBOR, such contracts were amended by operation of law under the federal Adjustable Interest Rate (LIBOR) Act and rules thereunder to include a statutorily designated fallback to LIBOR. Under the Federal Reserve Board's rule implementing certain provisions of the LIBOR Act (Regulation ZZ), on the LIBOR replacement date (the first London banking day after June 30, 2023), the Federal Reserve Board-selected benchmark replacement, based on the SOFR and including any tenor spread adjustment as provided by Regulation ZZ, automatically replaced references to overnight, one, three, six, and twelve month LIBOR in all remaining contracts that did not mature before the LIBOR replacement date and did not contain adequate fallback language.

The Association had no outstanding LIBOR exposure as of December 31, 2023.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 - Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The enhanced rate reconciliation will require tabular reporting by amount and percentage for specifically defined reconciling items as well as additional information for reconciling items that meet a quantitative threshold of greater than five percent of the amount computed by multiplying pre-tax income by the applicable statutory income tax rate. Income taxes paid will require disaggregated disclosure by federal, state and foreign jurisdictions for amounts exceeding a quantitative threshold of greater than five percent of total income taxes paid. The guidance will also eliminate the requirement to disclose an estimate of the range of the reasonably possible change in the unrecognized tax benefits balances in the next 12 months. The amendments in this guidance are effective for public business entities for annual periods beginning after December 15, 2024 and should be applied on a prospective basis, although retrospective application is permitted. Early adoption is also permitted for annual financial statements that have not yet been issued or made available for issuance. The adoption of this guidance is not expected to have a material impact on the Association's financial condition, results of operations or cash flows.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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 as of December 31, 2023, all of which are located in North Carolina:

Location	Description	Form of Ownership
408 NC Hwy 561 W Ahoskie	Branch	Owned
811 South Walker Street Burgaw	Branch	Owned
1780 Southeast Boulevard Clinton	Branch	Owned
400 West Broad Street Dunn	Branch	Owned
101 Impact Boulevard Elizabeth City	Branch	Owned
108 North Poplar Street Elizabethtown	Branch	Owned
2919 Breezewood Avenue Suite 400 Fayetteville	Administrative	Owned
636 Rock Spring Road Greenville	Branch/ Administrative	Owned
419 South King Street Halifax	Branch	Owned
322 North Main Street Kenansville	Branch	Leased
127 Beasley Street Kenansville	Branch	Owned
7900 Hwy 70 West La Grange	Branch	Owned
1654 NC 39 Hwy N Louisburg	Branch	Owned
1902 North Cedar Street Lumberton	Branch	Owned

Location	Description	Form of Ownership
1309 South Glenburnie Road New Bern	Branch	Owned
331 South Main Street Raeford	Branch	Owned
4000 Poole Road Raleigh	Branch/ Administrative	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
300 Liberty Street Whiteville	Branch	Owned
1105 Garrett Road Williamston	Branch	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 Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

Description of Capital Structure

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

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 Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

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, are as follows:

Name of Senior	Position, Prior Experience, and Other Business Interests
Evan J. Kleinhans	*President / Chief Executive Officer* since November 2022. He previously served as the Chief Executive Officer for three years and 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. Member of the AgFirst Farm Credit Bank and Farm Credit Bank of Texas Plan Fiduciary Committee.
Stuart C. Betts	*Senior Vice President / West Regional Lending Manager* since October 2023. He has more than 16 years of lending experience serving as a Loan Officer, Sr. Loan Officer and Branch Manager in the Harnett County branch.
Brook H. Gillis	*Executive Vice President / Chief Lending Officer – Branch Lending* since September 2023. She previously served as a Regional Manager for the Southern Region of AgCarolina's territory. Prior, she served Chief Sales Officer and Regional Manager for the Southern Region of Cape Fear Farm Credit's territory. She also served as a Relationship Manager in the Capital Markets Department. She has more than ten years of lending experience having been a Loan Officer and Branch Manager in the Elizabethtown Branch. Collectively, she has a total of seventeen years of experience with the Farm Credit System. She serves as a Board Member of the NC Farmer Veteran Coalition.
Charles M. Hester	*Executive Vice President / Chief Financial Officer* since November 2022. He previously served as Chief Financial Officer for three years and Controller for five years at Cape Fear Farm Credit.
Anthony S. (Scott) Jackson	*Executive Vice President / Chief Credit Officer* since June 2021. He previously served as Chief Risk Officer for two years and Vice President of Credit Risk Management for seven years.
Brian Johnson	*Senior Vice President – South Regional Lending Manager* since October 2023. He previously served as an Agribusiness Loan Officer for one year, Business Development Officer for two years, and Branch Manager for nine years. Collectively, he has a total of twenty-six years of lending experience with the Farm Credit System.

Laura S. (Skipper) Jones	*Executive Vice President – Chief Administrative Officer* since January 2023. She previously served as the Vice President – Marketing and Communications for six years. Prior to that she served as the Administrative Officer and Marketing Manager as Cape Fear Farm Credit for nine years total. 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.
Geoffrey J. Manderewicz	*Executive Vice President / Chief Operating Officer* since January 2023. He previously served as Chief Operating and Chief Credit Officer for six years at Cape Fear Farm Credit. Prior, he served as a Credit Analysis Manager for AgChoice Farm Credit for six years. He also served as a Loan Officer and Branch Manager for Northwest Savings Bank for eight years.
Matthew McFarlin	*Senior Vice President / Director of Internal Controls and Financial Reporting* since May 2023. He previously worked in public accounting for over fifteen years, with 7 of those years focused on serving various Associations in the Farm Credit System.
Timothy M. Pace *(1)*	*Executive Vice President / Executive Lending Advisor* since August 2023. He previously served as Chief Lending Officer for eight months. Prior to that he served as Senior Vice President of Branch Lending for eleven years and Senior Vice President of Financial Services for five years. He has a total of twenty-five years of experience with the Farm Credit System.
Johnathan O. Patterson *(2)*	*Senior Vice President / West Regional Manager* since January 2023. He previously served as Chief Relationship Officer and Regional Manager for the Northern Region of Cape Fear Farm Credit's territory. Prior, he served as Credit Portfolio Manager and Special Assets Manager. He also has more than 13 years of lending experience having been a Loan Officer and Branch Manager at Carolina Farm Credit and Cape Fear Farm Credit.
Roy P. Robertson, Jr.	*Executive Vice President / Chief Lending Officer – Agribusiness & Financial Services* since September 2023. He previously served as the Director of Agribusiness & Financial Services for nine months and Senior Vice President – Corporate Lending for eleven years. Prior to that, he served as Chief Lending Officer and Senior Vice President Financial Services for AgCarolina Farm Credit. He has a total of twenty-four years of lending experience with the Farm Credit System.
Brian J. Smith	*Senior Vice President / Director of Internal Audit* since January 2023. He previously served as Chief Risk Officer for two years and Senior Credit Administrator for four years prior to that. He also has prior experience as Director of Credit Reporting and Chief Risk Officer at Cape Fear Farm Credit.
Arthur R. (Buck) Spruill, III *(3)*	*Executive Vice President / Executive Lending Advisor* since September 2023. He previously served as Chief Lending Officer and East Regional Lending Manager for nine years total. Prior to that he served as an Agribusiness Loan Officer for two years. He has more than fourteen years of lending experience with the Farm Credit System. He also served as an Agribusiness Executive with two commercial banks for twenty years. 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.
Courtney R. Stewart	*Senior Vice President / Director of Risk Management* since April 2020. She previously served as a Credit Operations Manager, Compliance & Consumer Lending manager, Compliance Officer and Consumer Loan Officer. Collectively, she has a total of 14 years of experience with the Farm Credit System.
Preston Sutton	*Senior Vice President / East Regional Lending Manager* since September 2023. He previously served as a Branch Manager for seven years and loan officer prior to that. He has a total of twenty-four years of lending experience with the Farm Credit System. He also serves on the Lenoir Community College Board of Trustees.
Gerald B. Wilson	*Executive Vice President / Chief Lending Officer of Corporate Lending and Capital Markets* since September 2023. He previously served as Director of Corporate Lending and Capital Markets for nine months and Commercial Loan Manager for four years. He has a total of twenty years of lending experience having been a Loan Officer and Branch Manager in the Kenansville Branch. Collectively, he has a total of twenty-five years of experience with the Farm Credit System.

(1) Timothy M. Pace retired effective November 30, 2023.
(2) Johnathan O. Patterson passed away September 5, 2023.
(3) Arthur R. (Buck) Spruill, III resigned effective January 2, 2024.

Compensation

The total amount of compensation (in whole dollars) received by the CEO and other officers (excluding the CEO) as a group during the years ended December 31, 2023, 2022, and 2021, is presented in the following tables. The first table presented illustrates actual compensation received in cash in the form of salary and bonus:

Name of Individual or Number in Group*	Year	Received Compensation: Salary	Bonus	Total Received Compensation (a)
Evan J. Kleinhans	2023	$ 450,000	$ 100,000	$ 550,000
David W. Corum	2023	$ –	$ 101,411	$ 101,411
David W. Corum	2022	$ 331,650	$ 121,437	$ 453,087
David W. Corum	2021	$ 337,415	$ 119,068	$ 456,483
16 Officers	2023	$ 2,627,095	$ 646,733	$ 3,273,828
7 Officers	2022	$ 1,091,978	$ 434,340	$ 1,526,318
7 Officers	2021	$ 948,820	$ 337,509	$ 1,286,329

** David W. Corum served as Chief Executive Officer until his retirement effective November 30, 2022. Compensation received in 2023 was for services rendered in 2022.*

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)
Evan J. Kleinhans	2023	$ –	$ 25,123	$ –	$ 25,123	$ 575,123
David W. Corum	2023	$ –	$ –	$ –	$ –	$ 101,411
David W. Corum	2022	$ (325,200)	$ 11,306	$ 310,000	$ (3,894)	$ 449,193
David W. Corum	2021	$ (173,425)	$ 13,266	$ 60,000	$ (100,159)	$ 356,324
16 Officers	2023	$ 1,032,507	$ 288,107	$ 110,000	$ 1,430,614	$ 4,704,442
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

** David W. Corum served as Chief Executive Officer until his retirement effective November 30, 2022. Compensation received in 2023 was for services rendered in 2022.*
*** 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, 2023. 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, 2023. 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, 2023

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2023
CEO:					
Evan J. Kleinhans	2023			$ –	$ –
			Total	$ –	$ –
Officers					
6 Officers, excluding the CEO	2023	AgFirst Retirement Plan	17.03*	$ 1,525,307	$ 2,487,041
			Total	$ 1,525,307	$ 2,487,041

** 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. Mr. Kleinhans does not participate in the AgFirst Defined Benefit Plan. The amount of the change in pension in pension value for the remaining officers presented above is $1,032,507.

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 senior officers, exclusive of the CEO, participate in and details about certain aspects of the plan(s). As illustrated, six senior officers participate in the AgFirst Retirement Plan and ten senior officers do not participate in a defined benefit pension plan. See *Note 9, Employee Benefit Plans* for further information. The average of the six officers in the AgFirst Retirement Plan, exclusive of the CEO, is shown at 17.03 years, with a range of credited service within the plan from 24 to 27 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 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 2023 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**	**2023 Committee Assignments**	**Current Term *(b)***	**Total Comp. Paid During 2023**
S. Stuart Pierce, Jr., *Chairman*	2005	10	19	Governance	2021-2024	$35,000
Nash Johnson II, *Vice Chairman*	2017	9	16	Compensation, Governance	2021-2025	30,000
Dr. A. Blake Brown	2020	9	15.5	Audit	2024-2027	30,000
Ruby W. Bullard	2022	10	10	Risk	2022-2026	30,000
Paul A. Drake	2007	9	7	Risk	2023-2026	30,000
Anthony T. Grant	2013	9	0	Risk	2024-2027	30,000
Bonnie V. Hancock	2022	10	15	Risk, Governance	2022-2025	32,500
Dean C. Hilton	2019	6	1	Audit	2019-2023	30,000
Michael E. Inman	2022	10	7	Risk	2022-2026	30,000
Bundy H. Lane	2008	9	6	Audit	2024-2027	30,000
Adrian B. Locklear	2016	9	17	Compensation, Governance	2020-2024	32,500
F. A. Lowrey *(c)*	2021	10	4	Risk	2021-2024	30,000
Paul M. Maguire	2014	10	10	Risk	2022-2026	30,000
Audie M. Murphy	2006	10	9	Compensation	2022-2025	30,000
T. Morris Murphy	2016	10	11	Compensation	2020-2024	30,000
B. Derek Potter	2009	10	15	Audit, Governance	2022-2025	30,000
Gary L. Rouse	2015	6	8	Audit	2021-2025	30,000
Rodney D. Smith	2012	6	0	Compensation	2021-2024	30,000
Michael T. Stone	2016	10	9	Audit	2024-2027	30,000
Ellis W. Taylor	2007	10	20	Audit, Governance	2023-2026	32,500
Jackie E. Thompson, Sr.	2016	8	11	Compensation	2020-2023	30,000
Robert E. Turner, Jr.	2019	10	9	Compensation	2023-2026	30,000
Mark A. Wellons	2021	10	4	Risk	2021-2024	30,000
TOTAL						$702,500

(a) *Position Title as of 12/31/2023.*
(b) *All directors elected in 2023 officially began their current term January 1, 2024 and will complete their current term on December 31, 2027.*
(c) *F. A. Lowrey tendered his resignation as Director effective December 31, 2023.*

Subject to approval by the board, the Association may allow the outside directors and elected directors an annual retainer of $30,000, Board Chairman a $1,250 quarterly stipend, and other Committee Chairs a $625 quarterly stipend. Total compensation paid to directors as a group was $702,500. 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.

Directors 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 $267,682 for 2023, $98,540 for 2022 and $67,613 for 2021.

The following sets forth certain information regarding the directors of the Association who served during 2023 and their principal occupation for the past five years:

S. Stuart Pierce, Jr., *Board Chair,* is a row crop farmer who 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 also serves on the North Carolina Farm Bureau Board and the board of the North Carolina Farmland Preservation Trust Fund, a land preservation trust.

Nash Johnson II, *Board Vice Chair*, is a swine, poultry, timber, row crop, cattle and hay farmer who serves as a member manager of Ten Js, LLC, a commercial real estate company, is currently serving as President of Deca J. Farms, Inc., an agricultural services company, and also serves as a member of NLJ Ventures, LLC.

Dr. Alvin B. (Blake) Brown, Outside Director, is the Hugh C. Kiger Professor Emeritus of Agricultural and Resource Economics at North Carolina State University. He 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. He also has a beef cattle farm in the NC mountains.

Ruby W. Bullard is a corn, cotton, soybeans and timber farmer who is a self-employed attorney and also serves as Vice President of GEB Equipment, Inc., an agricultural irrigation design and sales business.

Paul A. Drake is a row crop and livestock farmer who serves on the board 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.

Anthony T. Grant, Outside Director, is the CEO and owner of Grant Business Advisors, a financial advisory and business strategies firm, providing business consulting services. He also serves as Chairman of the USDA Farm Service Agency State Committee for South Carolina and on the board of the Columbia Urban League.

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, and an advisory director of HomeTrust Bank.

Dean C. Hilton is a swine farmer and managing member of HD3 Farms of the Carolinas. He is the co-owner of Hilton Auction and Realty, a full service real estate brokerage company, and President of The Hilton Companies. He also serves on the boards of the Town of White Lake Board of Commissioners, the North Carolina Rural Infrastructure Authority and the Bladen Community College Foundation. *Mr. Hilton completed his elected term as director effective December 31, 2023.*

Michael E. Inman is a swine, hay and row crop farmer who is a service technician at Prestage Farms, Inc. He also serves on the boards of the North Carolina Pork Council, Bladen County Extension Service Advisory Board, and the Tar Heel Dixie Youth Baseball.

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

Adrian B. Locklear is a row crop, rapeseed, and sweet corn farmer who serves on the board of the North Carolina Soybean Producers Association. He is a G.A.P. member with CropLife America and also serves on the deacon board at Mt. Olive PH Church.

F.A. Lowrey, Outside Director, is a board consultant. He retired as the CEO of AgFirst Farm Credit Bank in 2012 and now serves on the board of the South Carolina Jobs & Economic Development Authority, a SC statewide conduit bond issuer. He also serves as an elder at Eastminister Presbyterian Church. *Mr. Lowrey tendered his resignation as director effective December 31, 2023.*

Paul M. Maguire is a cattle, poultry, hay and timber farmer who serves on the Cumberland County Extension Advisory Board and is also an officer of the Cumberland County Livestock Association.

Audie M. Murphy is a row crop and poultry farmer who serves on the Greene County Farm Bureau Board. He also serves as an officer and director on several closely held family farming entities.

T. Morris Murphy is a timber, corn, soybeans, cotton, sweet potatoes, cucumbers, hay, swine and poultry farmer who serves on the board of the North Carolina Pork Council and as assistant treasurer at Friendship F.W.B. Church.

B. Derek Potter, is a row crop farmer who serves on the boards 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.

Gary L. Rouse, Outside Director, is the President, Stockholder and Firm Manager of Rouse & Peterson, P.A., a public accounting firm. He serves as a practicing Certified Public Accountant at Rouse & Peterson, P.A.

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

Michael T. (Bo) Stone is a row crop, hay, cattle, contract swine, produce and strawberry farmer who serves on the boards of Southeastern Regional Medical Center, The Farm Credit Council Services, The Farm Credit Council, and AgFirst Farm Credit Bank.

Ellis W. Taylor is a row crop farmer who 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 who serves on the boards of Wake County Farm Bureau, North Carolina Farm Bureau, the North Carolina Tobacco Growers Association, and North Carolina Tobacco Associates. *Mr. Thompson, Sr. reached the age limitation for re-election and completed his elected term as director effective December 31, 2023.*

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

Mark A. Wellons is a row crop and livestock farmer who serves on the boards of Tobacco Associates, a commodity organization, North Carolina Farm Bureau, NC Farm Bureau's Energy and Transportation Committee, and 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, 2023 were as follows (in whole dollars):

	2023
Independent Auditor	
PricewaterhouseCoopers, LLP	
Audit services	$ 189,020
Total	$ 189,020

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, 2023. 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, 2023 and the average dividend rate paid on shares of preferred stock during 2023 was 2.31 percent.

Consolidated Financial Statements

The consolidated financial statements, together with the report of PricewaterhouseCoopers, LLP dated March 7, 2024 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 1-472-210-3281, 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 $250,000 in annual gross sales of agricultural or aquatic products at the date the loan is originally made. For 2024, the definition of a "Small" farmer changes to "normally generates less than $350,000 in annual gross cash farm income of agricultural or aquatic products."

The following tables outline the loan volume (in thousands) and number of outstanding YBS loans as of December 31, 2023 and new YBS loans made in 2023 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, 2023

	Number of Loans		Amount of Loans	
	2023 Goal	2023 Actual	2023 Goal	2023 Actual
Young	2,216	2,225	$385,851	$387,051
Beginning	3,244	3,336	538,551	578,612
Small	4,738	4,675	438,491	450,072

New Loan Goals and Progress
December 31, 2023

	Number of Loans		Amount of Loans	
	2023 Goal	2023 Actual	2023 Goal	2023 Actual
Young	636	428	$150,557	$88,560
Beginning	886	647	195,382	134,134
Small	1,233	893	135,920	100,410

The following table shows the Association's YBS loans as a percent of the total number of loans as of December 31, 2023, 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 12/31/23 Number of Loans	2017 Ag Census Number of Farmers
Young	15.98%	8.01%
Beginning	24.16%	26.10%
Small	33.35%	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, including veterans and minorities, 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 2023: • 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.	AgCarolina Farm Credit recognizes the significance that YBS farmers play in the overall success of the Association. Following are highlights of the YBS outreach efforts completed during 2023 to meet the qualitative goals set: • Used a variety of communication channels to reach the YBS audience, including veterans and minorities. • Supported Small Farms Week at NC A&T State University and co-led a farm finance workshop. • Provided online business planning programs and in-person learning, Ag Biz Planner and Ag Biz Basics, for young, beginning, small, and minority producers. • Hosted a YBS Farmer Conference and Women in Ag Conference. • Hosted Ag Leadership Institute providing education on business training, farm transition, ag economics, and personal finance. • Hosted Measuring Success Workshops focused on helping attendees gain a deeper understanding of financial statements, benchmarking and goal setting. • Supported YBS members through the Grow Your F.A.R.M. program, an ag educational reimbursement program. • Continued YBS specific lending programs: YBS New Borrower Program, FarmStart and AgStart. • Supported a variety of 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 of the Year" award. • Provided scholarships to youth in our service territory. • Expanded the Association's Grant Program funding and presented funds to organizations across the territory for programs that included FFA and 4-H projects, local food banks, and projects for non-profit organizations. • Partnered with Ripe Revival, a non-profit focused on reviving communities through food, on various outreach efforts to reach underserved communities and provided funds for the organization to purchase a produce bus to provide easier access for people living in food deserts. • Sponsored Ag Days at NC State University and NC A&T State University. • Hosted annual Pull for Youth sporting clays event, a fundraiser for NC 4-H and FFA. • Offered weather and commodity marketing email subscriptions. • Provided internships and 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 2023, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards 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 2023. 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
Bundy H. Lane
B. Derek Potter
Gary L. Rouse
Michael T. Stone

March 7, 2024

Report of Independent Auditors

To the Management and Board of Directors 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, 2023, 2022 and 2021, and the related consolidated statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

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

Basis for Opinion

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

Emphasis of Matter

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Other Information

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

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

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 7, 2024

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2023	2022	2021
Assets			
Cash	**$ 4**	$ 93	$ 6
Investments in debt securities:			
Held to maturity (fair value of $2,135, $0, and $0, respectively)	**2,409**	—	—
Loans	**2,613,222**	1,362,645	1,280,860
Allowance for loan losses	**(12,418)**	(9,034)	(13,484)
Net loans	**2,600,804**	1,353,611	1,267,376
Loans held for sale	**3,632**	—	—
Accrued interest receivable	**37,921**	17,522	14,535
Equity investments in other Farm Credit institutions	**42,599**	16,607	10,909
Premises and equipment, net	**20,321**	14,722	15,568
Accounts receivable	**22,887**	8,922	21,307
Other assets	**4,092**	3,939	4,567
Total assets	**$ 2,734,669**	$ 1,415,416	$ 1,334,268
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 2,155,900**	$ 1,072,805	$ 1,001,022
Accrued interest payable	**7,737**	2,995	1,782
Patronage refunds payable	**49,154**	24,507	25,555
Accounts payable	**4,346**	2,539	1,724
Advanced conditional payments	**4**	37	126
Other liabilities	**17,643**	11,255	10,167
Total liabilities	**2,234,784**	1,114,138	1,040,376
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**26,442**	35,739	36,457
Additional paid-in-capital	**65,531**	—	—
Retained earnings			
Allocated	**333,127**	194,581	177,724
Unallocated	**74,972**	70,958	79,711
Accumulated other comprehensive income (loss)	**(187)**	—	—
Total members' equity	**499,885**	301,278	293,892
Total liabilities and members' equity	**$ 2,734,669**	$ 1,415,416	$ 1,334,268

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2023	2022	2021
Interest Income			
Loans	**$ 173,386**	$ 63,140	$ 53,027
Investments	**146**	—	—
Total interest income	**173,532**	63,140	53,027
Interest Expense	**85,629**	27,252	19,832
Net interest income	**87,903**	35,888	33,195
Provision for (reversal of) allowance for loan losses	**9,081**	(4,513)	28
Net interest income after provision for (reversal of) allowance for loan losses	**78,822**	40,401	33,167
Noninterest Income			
Loan fees	**5,318**	2,581	4,907
Fees for financially related services	**1,309**	16	608
Patronage refunds from other Farm Credit institutions	**23,023**	14,611	21,136
Gains (losses) on sales of rural home loans, net	**9**	—	—
Gains (losses) on sales of premises and equipment, net	**112**	1,468	490
Gains (losses) on other transactions	**(1,062)**	(1,045)	195
Other noninterest income	**3**	15	11
Total noninterest income	**28,712**	17,646	27,347
Noninterest Expense			
Salaries and employee benefits	**29,132**	15,505	17,616
Occupancy and equipment	**1,837**	1,248	1,178
Insurance Fund premiums	**3,660**	2,017	1,485
Purchased services	**2,560**	1,799	885
Data processing	**850**	431	509
Other operating expenses	**7,887**	3,891	3,133
(Gains) losses on other property owned, net	**11**	—	(6)
Total noninterest expense	**45,937**	24,891	24,800
Income before income taxes	**61,597**	33,156	35,714
Provision for income taxes	**76**	13	3
Net income	**$ 61,521**	$ 33,143	$ 35,711
Other comprehensive income net of tax			
Employee benefit plans adjustments	**7**	—	—
Comprehensive income	**$ 61,528**	$ 33,143	$ 35,711

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2023	2022	2021
Cash flows from operating activities:			
Net income	**$ 61,521**	$ 33,143	$ 35,711
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,857**	1,256	1,116
Amortization (accretion) of yield mark resulting from merger	**(11,073)**	—	—
Provision for (reversal of) allowance for loan losses	**9,081**	(4,513)	28
(Gains) losses on other property owned	**—**	—	(9)
(Gains) losses on sales of premises and equipment, net	**(112)**	(1,468)	(490)
(Gains) losses on sales of rural home loans, net	**(9)**	—	—
(Gains) losses on other transactions	**1,062**	1,045	(195)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(4,903)**	—	—
Proceeds from sales of loans held for sale, net	**958**	—	—
(Increase) decrease in accrued interest receivable	**(10,392)**	(2,987)	(351)
(Increase) decrease in accounts receivable	**(1,504)**	12,385	(2,888)
(Increase) decrease in other assets	**244**	628	(510)
Increase (decrease) in accrued interest payable	**2,218**	1,213	121
Increase (decrease) in accounts payable	**(468)**	815	520
Increase (decrease) in other liabilities	**2,205**	43	(1,311)
Total adjustments	**(10,836)**	8,417	(3,969)
Net cash provided by (used in) operating activities	**50,685**	41,560	31,742
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	**90**	—	—
Net (increase) decrease in loans	**(155,866)**	(81,722)	(89,206)
(Increase) decrease in equity investments in other Farm Credit institutions	**(11,745)**	(5,698)	1,072
Net cash acquired in business combination	**11**	—	—
Purchases of premises and equipment	**(1,144)**	(1,084)	(4,925)
Proceeds from sales of premises and equipment	**151**	2,142	589
Proceeds from sales of other property owned	**—**	—	296
Net cash provided by (used in) investing activities	**(168,503)**	(86,362)	(92,174)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**181,722**	71,783	85,519
Net increase (decrease) in advanced conditional payments	**(33)**	(89)	117
Capital stock and participation certificates issued/(retired), net	**(12,476)**	(1,002)	2,893
Patronage refunds and dividends paid	**(51,484)**	(25,803)	(28,095)
Net cash provided by (used in) financing activities	**117,729**	44,889	60,434
Net increase (decrease) in cash	**(89)**	87	2
Cash, beginning of period	**93**	6	4
Cash, end of period	**$ 4**	$ 93	$ 6
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ —**	$ —	$ 287
Estimated cash dividends or patronage distributions declared or payable	**49,000**	24,500	25,554
Dividends declared or payable in shares of preferred stock	**—**	284	164
Cumulative effect of change in accounting principle	**4,357**	—	—
Employee benefit plans adjustments (Note 9)	**(7)**	—	—
Acquisition-related transactions:			
Assets acquired	**(1,123,133)**	—	—
Liabilities assumed	**928,935**	—	—
Equity re-characterized due to merger	**194,198**	—	—
Supplemental information:			
Interest paid	**$ 73,070**	$ 26,039	$ 19,711
Taxes (refunded) paid, net	**145**	11	—

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	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
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
Cumulative effect of change in accounting principle				**4,357**		**4,357**
Comprehensive income				**61,521**	**7**	**61,528**
Capital stock/participation certificates issued/(retired), net	**(12,476)**					**(12,476)**
Dividends declared/paid	**586**			**(586)**		**—**
Patronage distribution						
Cash				**(49,000)**		**(49,000)**
Nonqualified retained earnings			**11,529**	**(11,529)**		**—**
Equity re-characterized due to merger	**2,593**	**65,531**	**126,268**		**(194)**	**194,198**
Patronage distribution adjustment			**749**	**(749)**		**—**
Balance at December 31, 2023	**$ 26,442**	**$ 65,531**	**$ 333,127**	**$ 74,972**	**$ (187)**	**$ 499,885**

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, Bladen, Brunswick, Camden, Carteret, Chowan, Columbus, Craven, Cumberland, Currituck, Dare, Duplin, Edgecombe, Franklin, Gates, Granville, Greene, Halifax, Harnett, Hertford, Hoke, Hyde, Johnston, Jones, Lenoir, Martin, Nash, New Hanover, Northampton, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Pitt, Robeson, Sampson, Scotland, Tyrrell, Vance, Wake, Warren, Washington, Wayne, and Wilson in the state of North Carolina.

Effective January 1, 2023, the Association merged with Cape Fear Farm Credit, ACA. See Note 14, *Merger Activity*, for further information.

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 sixteen District Associations. All sixteen were structured as ACA holding companies, with PCA and FLCA subsidiaries. FLCAs are tax-exempt while ACAs and PCAs are taxable.

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

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

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

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

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a 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. **Accounting Standard Updates (ASUs) Effective During the Period:** The Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to credit losses on January 1, 2023. This guidance replaced the current incurred loss impairment methodology with a single allowance framework for financial assets that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that consider macroeconomic conditions. In addition, the guidance amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance for credit losses related to these securities, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves.

   Also adopted effective January 1, 2023, was the updated guidance entitled "Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure." This guidance was applied on a prospective basis. This guidance requires the creditor to determine whether a modification results in a new loan or a continuation of an existing loan, among other disclosures specific to modifications with borrowers that are experiencing financial difficulties. The update eliminated the accounting guidance for troubled debt restructurings by creditors.

   The following table presents the impact to the allowance for loan losses and retained earnings upon adoption of this guidance on January 1, 2023:

	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for loan losses	$ 9,034	$ (4,357)	$ 4,677
Retained earnings:			
Unallocated retained earnings	$ 70,958	$ 4,357	$ 75,315

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

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

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

Loans are recorded at amortized cost basis, which is the principal amount outstanding adjusted for charge-offs, deferred loan fees or costs, and valuation adjustments relating to hedging activities, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

Nonaccrual Loans
Nonaccrual loans are loans for which there is reasonable doubt that all principal and interest will be collected according to the original contractual terms and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is modified or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

Consistent with prior practice, loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection), circumstances indicate that collection of principal and interest is in doubt or legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. At the time a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) or charged against the ACL (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, interest payments received in cash are generally recognized as interest income if the collectability of the loan principal is fully expected and certain other criteria are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans are returned to accrual status if all contractual principal and interest is current, the borrower is fully expected to fulfill the contractual repayment terms and after remaining current as to principal and interest for a sustained period or have a recent repayment pattern demonstrating future repayment capacity to make on-time payments. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer should first be recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

Accrued Interest Receivable
The Association adopted the practical expedient to classify accrued interest on loans and investment securities in accrued interest receivable and not as part of loans or investments on the Consolidated Balance Sheets. The Association also elected to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected.

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

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

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

- the allowance for loan losses which covers the Association's loan portfolio,
- the ACL on unfunded commitments, and
- the ACL on investment securities.

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

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

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

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

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

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

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

The component of the allowance for loan losses also considers factors for each loan pool to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to:

- lending policies and procedures;
- national, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
- the nature of the loan portfolio, including the terms of the loans;
- the experience, ability and depth of the lending management and other relevant staff;
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
- the quality of the loan review and process;
- the value of underlying collateral for collateral-dependent loans;
- the existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

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

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

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

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

Allowance for Credit Losses on Unfunded Commitments
The Association evaluates the need for an allowance for credit losses on unfunded commitments under CECL and, if required, an amount is recognized and included in Other Liabilities on the Consolidated Balance Sheets. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the Association and applying the loss factors used in the allowance for loan losses methodology to the results of the usage calculation. No allowance for credit losses is recorded for commitments that are unconditionally cancellable.

As of December 31, 2023, the Association determined that no allowance for credit losses on unfunded commitments was necessary. The Association will continue to evaluate the need for an allowance for credit losses on unfunded commitments on an ongoing basis.

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

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

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

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

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

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

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

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and carried at amortized cost.

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

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

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

As of December 31, 2023, the Association determined that no allowance for credit losses on investments was necessary. The Association will continue to evaluate the need for an allowance for credit losses on investments on an ongoing basis.

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

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

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

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

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

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

Additional information may be found in Note 9.

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

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

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

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

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

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

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.

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

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

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

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

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

K. **Accounts Receivable:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis. Patronage refunds due from the Bank for the years ended December 31, 2023, 2022, and 2021 of $21,485, $8,748, and $20,771, respectively, are reflected in Accounts Receivable on the Consolidated Balance Sheets.

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

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

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

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. 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.

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

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

N. **Acquisition Accounting:** Mergers are accounted for under the acquisition method of accounting. Purchased assets, including identifiable intangibles, and assumed liabilities are recorded at their respective acquisition date fair values. If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses.

Additional information may be found in Note 14.

O. **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.

P. **Leases:** A contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration is generally considered a lease.

Lessee
Contracts entered into are evaluated at inception to determine if they contain a lease. Assets and liabilities are recognized on the Consolidated Balance Sheets to reflect the rights and obligations created by any contracts that do. These contracts are then classified as either operating or finance leases.

In the course of normal operations, the Association may enter into leases for various business purposes. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement. Any options are assessed individually to determine if it is reasonably certain they will be exercised.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make the payments arising from the lease. ROU assets and lease liabilities are initially recognized based on the present value of lease payments over the lease term. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Lease expense for finance leases is recognized on a declining basis over the lease term.

ROU assets are included on the Consolidated Balance Sheets in Premises and Equipment for finance leases and Other Assets for operating leases. Lease liabilities are included in Other Liabilities on the Consolidated Balance Sheets. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets and lease expense is recognized over the lease term.

Lessor
The Association may act as lessor in certain contractual arrangements which relate to office space in an owned property and are considered operating leases. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement.

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

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

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31, 2023	December 31, 2022	December 31, 2021
Real estate mortgage	$ 1,512,362	$ 785,221	755,579
Production and intermediate-term	763,728	451,508	423,382
Agribusiness:			
Loans to cooperatives	40,299	3,156	2,595
Processing and marketing	128,145	64,436	50,684
Farm-related business	65,671	17,264	14,760
Rural infrastructure:			
Communication	23,207	3,062	(2)
Power and water/waste disposal	14,792	431	310
Rural residential real estate	57,200	36,787	33,552
Other:			
International	3,565	780	–
Lease receivables	4,209	–	–
Other	44	–	–
Total loans	$ 2,613,222	$ 1,362,645	1,280,860

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

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

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

December 31, 2023	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 34,752	$ 314,054	$ –	$ 5,432	$ 27,877	$ –	$ 62,629	$ 319,486
Production and intermediate-term	56,891	472,781	7,369	144,229	–	–	64,260	617,010
Agribusiness	136,024	347	10,876	5,750	–	–	146,900	6,097
Rural infrastructure	38,348	–	–	–	–	–	38,348	–
Other	3,599	–	4,460	–	–	–	8,059	–
Total	$ 269,614	$ 787,182	$ 22,705	$ 155,411	$ 27,877	$ –	$ 320,196	$ 942,593

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
Agribusiness	31,706	14,894	1,455	–	–	–	33,161	14,894
Rural infrastructure	3,505	–	–	–	–	–	3,505	–
Other	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
Agribusiness	19,120	25,600	1,234	–	–	–	20,354	25,600
Rural infrastructure	311	–	–	–	–	–	311	–
Total	$ 52,661	$ 107,415	$ 5,181	$ 163,038	$ –	$ –	$ 57,842	$ 270,453

The following table shows loans, classified under the FCA Uniform Loan Classification System, as a percentage of total loans by loan type as of:

	December 31,		
	2023	2022*	2021*
Real estate mortgage:			
Acceptable	95.99%	95.15%	93.31%
OAEM	2.91	3.88	4.62
Substandard/doubtful/loss	1.10	0.97	2.07
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	93.16%	94.30%	91.34%
OAEM	4.35	3.97	5.78
Substandard/doubtful/loss	2.49	1.73	2.88
	100.00%	100.00%	100.00%
Agribusiness:			
Acceptable	96.65%	96.75%	96.08%
OAEM	3.03	3.25	1.46
Substandard/doubtful/loss	0.32	–	2.46
	100.00%	100.00%	100.00%
Rural infrastructure:			
Acceptable	97.41%	100.00%	100.00%
OAEM	2.59	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	97.68%	98.62%	98.52%
OAEM	1.90	1.31	1.47
Substandard/doubtful/loss	0.42	0.07	0.01
	100.00%	100.00%	100.00%
Other:			
Acceptable	98.68%	100.00%	–%
OAEM	0.47	–	–
Substandard/doubtful/loss	0.85	–	–
	100.00%	100.00%	–%
Total loans:			
Acceptable	95.29%	95.08%	92.94%
OAEM	3.31	3.79	4.75
Substandard/doubtful/loss	1.40	1.13	2.31
	100.00%	100.00%	100.00%

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

Accrued interest receivable on loans of $37,909, $17,522, and $14,535 at December 31, 2023, 2022, and 2021, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

The following table provides an aging analysis of past due loans as of:

	December 31, 2023				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 4,801	$ 3,875	$ 8,676	$ 1,503,686	$ 1,512,362
Production and intermediate-term	5,956	3,705	9,661	754,067	763,728
Agribusiness	4,449	783	5,232	228,883	234,115
Rural infrastructure	–	–	–	37,999	37,999
Rural residential real estate	404	77	481	56,719	57,200
Other	170	66	236	7,582	7,818
Total	$ 15,780	$ 8,506	$ 24,286	$ 2,588,936	$ 2,613,222

Prior to the adoption of CECL, the aging analysis of past due loans reported included accrued interest as follows:

December 31, 2022	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 2,264	$ 2,468	$ 4,732	$ 789,928	$ 794,660
Production and intermediate-term	159	1,106	1,265	457,689	458,954
Agribusiness	–	–	–	85,341	85,341
Rural infrastructure	–	–	–	3,496	3,496
Rural residential real estate	237	–	237	36,683	36,920
Other	–	–	–	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
Agribusiness	43	–	43	68,282	68,325
Rural infrastructure	–	–	–	308	308
Rural residential real estate	–	–	–	33,668	33,668
Total	$ 1,497	$ 993	$ 2,490	$ 1,292,905	$ 1,295,395

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

	December 31, 2023
Nonaccrual loans:	
Real estate mortgage	$ 6,485
Production and intermediate-term	4,725
Agribusiness	783
Rural residential real estate	77
Other	65
Total	$ 12,135
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 12,135
Other property owned	–
Total nonperforming assets	$ 12,135
Nonaccrual loans as a percentage of total loans	0.46%
Nonperforming assets as a percentage of total loans and other property owned	0.46%
Nonperforming assets as a percentage of capital	2.43%

December 31,	2022*	2021*
Nonaccrual loans:		
Real estate mortgage	$ 3,937	$ 3,260
Production and intermediate-term	5,003	5,775
Agribusiness	–	1,680
Rural residential real estate	–	5
Total	$ 8,940	$ 10,720
Accruing restructured loans:		
Real estate mortgage	$ 2,568	$ 2,932
Production and intermediate-term	514	640
Total	$ 3,082	$ 3,572
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 12,022	$ 14,292
Other property owned	–	–
Total nonperforming assets	$ 12,022	$ 14,292
Nonaccrual loans as a percentage of total loans	0.66%	0.84%
Nonperforming assets as a percentage of total loans and other property owned	0.88%	1.12%
Nonperforming assets as a percentage of capital	3.99%	4.86%

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

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

	December 31, 2023			Interest Income Recognized on Nonaccrual Loans
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Year Ended December 31, 2023
Real estate mortgage	$ 2,031	$ 4,454	$ 6,485	$ 1,552
Production and intermediate-term	3,680	1,045	4,725	1,131
Agribusiness	266	517	783	187
Rural residential real estate	77	–	77	18
Other	30	35	65	16
Total	$ 6,084	$ 6,051	$ 12,135	$ 2,904

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for Loan Losses*:							
Balance at December 31, 2022	$ 5,158	$ 3,059	$ 551	$ 23	$ 238	$ 5	$ 9,034
Cumulative effect of a change in accounting principle	(2,986)	(847)	(291)	(20)	(209)	(4)	(4,357)
Balance at January 1, 2023	$ 2,172	$ 2,212	$ 260	$ 3	$ 29	$ 1	$ 4,677
Charge-offs	(257)	(1,148)	(13)	–	–	–	(1,418)
Recoveries	43	34	1	–	–	–	78
Provision for loan losses	3,510	4,293	1,071	31	13	163	9,081
Balance at December 31, 2023	$ 5,468	$ 5,391	$ 1,319	$ 34	$ 42	$ 164	$ 12,418
Balance at December 31, 2021	$ 6,977	$ 5,573	$ 624	$ 3	$ 307	$ –	$ 13,484
Charge-offs	(70)	(10)	–	–	–	–	(80)
Recoveries	22	121	–	–	–	–	143
Provision for loan losses	(1,771)	(2,625)	(73)	20	(69)	5	(4,513)
Balance at December 31, 2022	$ 5,158	$ 3,059	$ 551	$ 23	$ 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	(14)	(18)	–	28
Balance at December 31, 2021	$ 6,977	$ 5,573	$ 624	$ 3	$ 307	$ –	$ 13,484

**For periods prior to January 1, 2023, the allowance for loan losses was based on probable and estimable losses inherent in the loan portfolio.*

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $70,516, $23,020 and $22,764 at December 31, 2023, 2022, and 2021, respectively. Fees paid for such guarantee commitments totaled $135 for 2023 and less than $1 for 2022 and 2021. These amounts are classified as noninterest expense.

Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one, or a combination of, principal forgiveness, interest rate reduction, or a term or payment extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions. Modified loans to borrowers experiencing financial difficulty and activity on these loans were not material during the year ended December 31, 2023. There were no material commitments to lend to borrowers experiencing financial difficulty whose loans have been modified at December 31, 2023.

Loans held for sale were $3,632, $0, and $0 at December 31, 2023, 2022, and 2021, respectively. Such loans are carried at the lower of cost or fair value.

Troubled Debt Restructurings

Prior to the adoption of updated FASB guidance on loan modifications on January 1, 2023, a restructuring of a loan constituted a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program, were borrower-specific, and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a TDR, these loans were included within impaired loans under nonaccrual or accruing restructured loans.

The following tables present additional information regarding troubled debt restructurings that occurred during the period:

Outstanding Recorded Investment	Year Ended December 31, 2022* 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	Year Ended December 31, 2021* Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
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)

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

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*
Real estate mortgage	$ 32	$ –
Production and intermediate-term	3,994	–
Total	$ 4,026	$ –

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

The following table provides information at each period end on outstanding loans restructured in troubled debt restructurings.

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

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

Note 4 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At December 31, 2023, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity, which were acquired in the Association's merger that was effective January 1, 2023, follows. See Note 14, *Merger Activity*, for further information.

	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 2,409	$ –	$ (274)	$ 2,135	5.95 %

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

	December 31, 2023		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	– %
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	2,409	2,135	5.95
Total	$ 2,409	$ 2,135	5.95 %

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

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

Equity Investments in Other Farm Credit Institutions

Equity investments in other Farm Credit 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 $41,337, $15,878, and $10,243 at December 31, 2023, 2022, and 2021, respectively. The Association owned 7.95 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled $45.0 billion and shareholders' equity totaled $1.7 billion. The Bank's earnings were $265 million for 2023, $412 million for 2022, and $486 million for 2021. In addition, the Association had investments of $1,262 related to other Farm Credit institutions at December 31, 2023.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2023	2022	2021
Land	$ 3,806	$ 2,469	$ 2,906
Buildings and improvements	17,631	13,565	14,255
Furniture and equipment	10,115	6,256	6,177
	31,552	22,290	23,338
Less: accumulated depreciation	11,231	7,568	7,770
Total	$ 20,321	$ 14,722	$ 15,568

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2023, the Association's notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 6.28 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 6.24 percent for Prime-based loans, and the weighted average remaining maturities were 4.0 years and 1.6 years, respectively, at December 31, 2023. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.42 percent, and the weighted average remaining maturity was 10.6 years at December 31, 2023. The weighted average interest rate on all interest-bearing notes payable was 4.18 percent and the weighted average remaining maturity was 8.4 years at December 31, 2023. Variable rate and fixed rate notes payable represent approximately 8.35 percent and 91.65 percent, respectively, of total notes payable at December 31, 2023. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **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 $6,996, representing the total outstanding value of capital stock and participation certificates at December 31, 2023.

   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, 2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	17.28%	19.76%	19.47%
Tier 1 Capital	6.0%	2.5%	8.5%	17.28%	19.76%	19.47%
Total Capital	8.0%	2.5%	10.5%	17.86%	20.73%	20.58%
Permanent Capital	7.0%	0.0%	7.0%	18.16%	22.76%	22.73%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	17.63%	19.11%	19.62%
URE and UREE Leverage	1.5%	0.0%	1.5%	17.37%	18.81%	19.64%

** 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, 2023:

Class	Protected	Shares Outstanding Number	Aggregate Par Value
A Preferred/Nonvoting	No	3,889,283	$ 19,446
C Common/Voting	No	1,275,436	6,377
C Participation Certificates/Nonvoting	No	123,690	619
Total Capital Stock and Participation Certificates		5,288,409	$ 26,442

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

Retained Earnings

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

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account 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, 2023, allocated members' equity consisted of $333,127 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 2023 stock dividends of $586 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.

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

Changes in Accumulated Other Comprehensive income by Component *(a)*

	For the Year Ended December 31,		
	2023	**2022**	**2021**
Employee Benefit Plans:			
Balance at beginning of period	$ –	$ –	$ –
Equity re-characterized due to merger	(194)	–	–
Other comprehensive income before reclassifications	(7)	–	–
Amounts reclassified from AOCI	14	–	–
Net current period OCI	7	–	–
Balance at end of period	$ (187)	$ –	$ –

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	For the Year Ended December 31,			
	2023	**2022**	**2021**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ (14)	$ –	$ –	See Note 9.
Amounts reclassified	$ (14)	$ –	$ –	

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

Note 8 — Fair Value Measurement

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

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

	December 31, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	**Level 2**	**Level 3**	**Value**
Recurring assets				
Assets held in trust funds	$ 3,581	$ –	$ –	$ 3,581
Nonrecurring assets				
Impaired loans*	$ –	$ –	$ 5,370	$ 5,370
Other property owned	$ –	$ –	$ –	$ –

	December 31, 2022			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 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	$ –	$ –	$ –	$ –

**Carrying value of impaired loans is the balance of loans with a related specific reserve ($6,084) less related specific reserves ($2,044) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($1,330).*

*** 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).*

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 $1,439 for 2023, $899 for 2022, and $2,104 for 2021. At December 31, 2023, 2022, and 2021, the total liability balance for the FAP Plan was $33,660, $32,568, and $39,135, respectively. The FAP Plan was 95.43 percent, 95.81 percent, and 96.17 percent funded to the projected benefit obligation as of December 31, 2023, 2022, and 2021, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were $724 for 2023, $380 for 2022, and $368 for 2021. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $160,980, $167,895, and $209,599 at December 31, 2023, 2022, and 2021, respectively.

The Association also participates in the 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. 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 $1,594, $908, and $882 for the years ended December 31, 2023, 2022 and 2021, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

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

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 $130, $250, and $227 for the years ended December 31, 2023, 2022, and 2021, respectively. At December 31, 2023, 2022, and 2021, the Association had a deferred compensation liability related to this plan of $3,411, $3,818 and $4,278 included within Other Liabilities on the Consolidated Balance Sheets. Expenses of the nonqualified 401(k) plan included in noninterest expenses were $50, $9, and $8 for 2023, 2022, and 2021, respectively.

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2023 amounted to $58,748. During 2023, $22,542 of new loans were made and repayments totaled $23,175. In addition, net loans of $31,902 were newly classified as related party loans. In the opinion of management, none of these loans outstanding at December 31, 2023 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, 2023, $551,093 of commitments to extend credit and $10 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, 2023, standby letters of credit outstanding totaled $3,093 with expiration dates ranging from January 1, 2024 to November 17, 2027. The maximum potential amount of future payments that may be required under these guarantees was $3,093.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2023	2022	2021
Current:			
Federal	$ 76	$ 12	$ 3
State	–	1	–
Total Current	76	13	3
Deferred:			
Federal	–	–	–
State	–	–	–
Total Deferred	–	–	–
Total provision (benefit) for income taxes	$ 76	$ 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,		
	2023	2022	2021
Federal tax at statutory rate	$ 12,698	$ 6,963	$ 7,499
State tax, net	–	1	1
Non-pat tax	(67)	–	–
Effect of non-taxable FLCA subsidiary	(2,616)	(1,168)	(1,916)
Patronage distributions	(10,080)	(5,145)	(5,366)
Change in deferred tax asset valuation allowance	1,904	(702)	(228)
Deferred tax rate change	–	–	–
Other	(1,763)	64	13
Provision (benefit) for income taxes	$ 76	$ 13	$ 3

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

	December 31, 2023	2022	2021
Deferred income tax assets:			
Allowance for loan losses	$ 1,247	$ 1,058	$ 1,417
Nonaccrual loan interest	1,077	334	246
Loss carryforward	4,512	–	–
Depreciation	1	–	–
Gross deferred tax assets	6,837	1,392	1,663
Less: valuation allowance	(6,836)	(962)	(1,663)
Gross deferred tax assets, net of valuation allowance	1	430	–
Deferred income tax liabilities:			
Special patronage	(1)	(430)	–
Gross deferred tax asset (liability)		–	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2023, deferred income taxes have not been provided by the Association on approximately $9.1 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.

At December 31, 2023, the Association has federal loss carryforwards totaling approximately $13.0 million that expire in varying amounts beginning in 2032. Any portion of the Federal loss carryforwards generated post 2017 does not expire. The Association also has state loss carryforwards totaling approximately $7.1 million that expire in varying amounts beginning in 2029. The valuation allowance at December 31, 2023 was primarily related to federal and state loss carryforwards that, in the judgement of management, are more likely than not to expire before realized. In evaluating the Association's ability to recover its deferred income tax assets, it considers all available evidence, both positive and negative, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis.

The Association recorded a valuation allowance of $6,836, $962, and $1,663 as of December 31, 2023, 2022 and 2021, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

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

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

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

2023	First	Second	Third	Fourth	Total
Net interest income	$ 22,369	$ 21,700	$ 21,271	$ 22,563	$ 87,903
Provision for (reversal of) allowance for loan losses	8,581	1,546	817	(1,863)	9,081
Noninterest income (expense), net and taxes	(4,041)	(4,981)	(4,945)	(3,334)	(17,301)
Net income	$ 9,747	$ 15,173	$ 15,509	$ 21,092	$ 61,521

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

Note 14 — Merger Activity

Effective January 1, 2023, Cape Fear Farm Credit, ACA (Cape Fear) merged with and into AgCarolina Farm Credit, ACA (AgCarolina) to form the merged Association. The effects of the merger are included in the Association's results of operations, statement of condition, average balances, and related metrics beginning January 1, 2023.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of December 31, 2023. The Consolidated Statements of Income, Members' Equity, and Cash Flows include the merged Association after January 1, 2023 and do not include the results of Cape Fear prior to January 1, 2023. Information in the Notes to the Consolidated Financial Statements for 2021 and 2022 does not include balances and transactional activity for Cape Fear.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the common stock shares of Cape Fear that were converted in the merger and the common stock shares of AgCarolina to which they were converted had identical rights and attributes. For this reason, the conversion of Cape Fear stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each Cape Fear share was converted into one share of AgCarolina's stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the AgCarolina stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, AgCarolina undertook a process to identify and estimate the acquisition date fair value of Cape Fear's equity interests instead of the acquisition date fair value of AgCarolina's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from Cape Fear, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. In addition, no material amounts of intangible assets were acquired. As a result, management recorded no goodwill. A net increase of $194.2 million was recorded in stockholders' equity related to the merger.

The following condensed statement of net assets acquired reflects the fair value assigned to Cape Fear's net assets as of the date of acquisition. There were no subsequent changes to these fair values.

	Cape Fear
Assets:	
Net loans	$ 1,077,161
Accrued interest receivable	10,007
Other assets	35,965
Total assets	$ 1,123,133
Liabilities:	
Notes payable	$ 893,556
Accrued interest payable	2,524
Other liabilities	32,855
Total liabilities	$ 928,935
Fair value of net assets acquired	$ 194,198

Fair value adjustments to Cape Fear's assets and liabilities included an $80.5 million decrease to loans and a $32.3 million decrease to notes payable to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis.

Note 15 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 7, 2024, which was the date the financial statements were issued.