



ARBORONE
FARM CREDIT

2023

ANNUAL REPORT



ARBORONE, ACA

2023 ANNUAL REPORT

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Management

Bryant Sansbury.....	President and Chief Executive Officer
Brad J. Fjestad.....	Chief Financial Officer and Treasurer
Sarah H. Jackson.....	Chief Administrative Officer and Corporate Secretary
Leah B. Hollifield	Chief Credit Officer

Board of Directors

William DuPree Atkinson.....	Chairman
John Lee Newman.	Vice Chairman
Kyle Daniel	Director
Harry B. DuRant	Director
John E. Lay.....	Director
J. Whit Player.....	Director
James M. Ward	Director
Kelly O. Wiseman.....	Director

Message from the President

Dear Stockholders,

I am pleased to present the 2023 Annual Report for ArborOne Farm Credit. As reflected in this report, our agricultural lending cooperative was very successful last year. That success was only possible because of our customers and we appreciate your business. I am also proud to inform you that ArborOne Farm Credit is financially strong and well positioned to provide a stable source of credit for your farming operation or rural living needs in 2024 and for years to come.

Looking back over 2023, it was an interesting year. Economically, the Federal Reserve continued its inflationary battle, using multiple interest rate hikes early in the year which eventually had a cooling effect on rising costs. Technology continues to advance and there was a great deal of discussion on Artificial Intelligence, a tool that offers substantial benefits but also carries serious risks. Geopolitical unrest remained in the headlines as the war in Ukraine continued and conflict erupted in the Middle East.

Locally, farm operations throughout the region performed fairly well as a mild spring benefitted the corn crop resulting in above average yields. The fall weather was also favorable for most producers and dry conditions allowed for a timely harvest with many growers being finished by Thanksgiving. There were still challenges for our row crop farmers as ag commodity prices fell and costs for inputs such as seed, fertilizer and fuel remained elevated. Conditions varied for our livestock producers, but cow/calf operators were pleased to see increasing cattle prices, driven by a shrinking national herd and reduced calf crop supply.

Despite many challenges and headwinds, our Pee Dee Farmers showed once again in 2023 that they are some of the best in the world and we greatly appreciate all their hard work to feed, clothe and fuel our nation.

Demand for rural property was strong in 2023 despite higher interest rates with land values continuing to rise. South Carolina is a popular destination for those wanting to relocate because of its great natural beauty, pleasant climate, affordable living and (most importantly) wonderful people. In terms of population growth, we have ranked near the top in the country for the past couple of years. The appeal of the Palmetto State is understandable but the high rate of growth has created some concerns as farmland faces pressure due to residential development.

ArborOne Farm Credit had a good year in 2023. Earnings were stable and our overall loan volume grew by approximately 8%. Credit quality of the loan portfolio continued its upward climb, ending the year at nearly 99%. This could decline slightly in 2024 as lower commodity prices limit farm profitability and producers are faced with challenging financial decisions. Capital levels were sound with total regulatory capital ending at 17.99% for the year, well above regulatory minimums and internal targets.

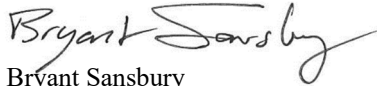
Crop Insurance is an important service offered by ArborOne Farm Credit. Our insurance team did a great job of working with area farmers in 2023 to protect their crop revenue using important risk mitigation tools. Our agents kept customers updated on new programs such as the Tropical Storm option for RMA's hurricane insurance policy, which provides crop protection for areas that experience storm force winds and heavy rain.

I want to thank our entire staff for their great efforts and dedication to the Farm Credit mission in 2023. They are an amazing group of people who work hard every day to meet your agricultural financing and crop insurance needs. Of special note, ArborOne implemented a new loan accounting system in July and, as with most new things, there were a few bugs to work out. The patience and understanding of our customers through this process was wonderful as everyone adapted to a new look and feel of the system. It wasn't easy, but our team members worked diligently to make this transition and continue to provide the exceptional customer service that is embedded in the culture at ArborOne. I'm truly proud to work alongside them.

If you've been an ArborOne customer for much time at all, you probably know how proud we are of our patronage program. This is an important benefit of doing business with your cooperative as the customers share in our success during good years. We are pleased to announce that, because of solid performance in 2023, ArborOne Farm Credit will be returning 51% of its net profits back to our customers in cash! That is the cooperative model at work! Look for those checks to arrive around the beginning of April.

Other important benefits of doing business with ArborOne Farm Credit include local decision making and ownership control through an elected member-board of directors. We are headquartered right here in the Pee Dee area and, as an ag lending cooperative, the directors are elected by you, our borrowers.

Thank you for choosing to do business with ArborOne Farm Credit. We hope that your experience with us has been fantastic and, if you have family or friends with similar financing or crop insurance needs, that you will tell them about Farm Credit. We look forward to seeing and working with you in 2024!



Bryant Sansbury
President and CEO

March 7, 2024

Report of Management

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

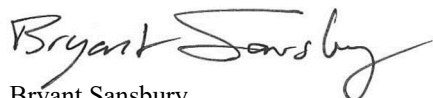
Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the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

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

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2023 Annual Report of **ArborOne, 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.



William Dupree Atkinson
Chairman of the Board



Bryant Sansbury
President and Chief Executive Officer



Brad J. Fjestad
Chief Financial Officer and Treasurer

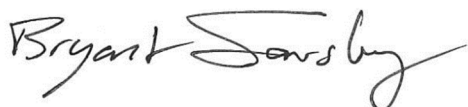
March 7, 2024

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 dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association’s assets that could have a material effect on its Consolidated Financial Statements.

The Association’s management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 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.



Bryant Sansbury
President and Chief Executive Officer



Brad J. Fjestad
Chief Financial Officer and Treasurer

March 7, 2024

Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	December 31,				
	2023	2022	2021	2020	2019
Balance Sheet Data					
Cash	\$ 2	\$ 3	\$ 3	\$ 2	\$ 113
Investments in debt securities	4,887	5,080	7,599	7,897	8,993
Loans	670,248	621,157	583,126	536,728	530,928
Allowance for loan losses	(10,869)	(11,852)	(13,037)	(11,790)	(12,298)
Net loans	659,379	609,305	570,089	524,938	518,630
Equity investments in other Farm Credit institutions	10,970	8,183	5,390	6,074	6,315
Other property owned	—	137	195	469	171
Other assets	21,504	17,873	23,612	22,863	21,519
Total assets	\$ 696,742	\$ 640,581	\$ 606,888	\$ 562,243	\$ 555,741
Notes payable to AgFirst Farm Credit Bank*	\$ 559,065	\$ 514,102	\$ 489,921	\$ 451,350	\$ 453,022
Accrued interest payable and other liabilities with maturities of less than one year	19,603	15,843	15,402	16,636	13,604
Total liabilities	578,668	529,945	505,323	467,986	466,626
Protected borrower stock	—	—	—	—	52
Capital stock and participation certificates	1,983	1,914	1,858	1,761	1,620
Retained earnings					
Allocated	76,627	76,191	70,277	63,700	59,046
Unallocated	39,565	32,619	29,495	28,864	28,416
Accumulated other comprehensive income (loss)	(101)	(88)	(65)	(68)	(19)
Total members' equity	118,074	110,636	101,565	94,257	89,115
Total liabilities and members' equity	\$ 696,742	\$ 640,581	\$ 606,888	\$ 562,243	\$ 555,741
Statement of Income Data					
Net interest income	\$ 19,603	\$ 18,139	\$ 16,881	\$ 15,343	\$ 14,242
Provision for (reversal of) allowance for credit losses	1,673	(1,408)	2,502	1,976	3,344
Noninterest income (expense), net	(5,283)	(3,846)	876	(406)	(2,789)
Net income	\$ 12,647	\$ 15,701	\$ 15,255	\$ 12,961	\$ 8,109
Key Financial Ratios					
Rate of return on average:					
Total assets	1.93%	2.53%	2.65%	2.34%	1.51%
Total members' equity	10.62%	14.45%	15.35%	13.78%	8.81%
Net interest income as a percentage of					
average earning assets	3.06%	2.96%	2.98%	2.83%	2.72%
Net (chargeoffs) recoveries to average loans	(0.198)%	0.037%	(0.225)%	(0.464)%	(0.747)%
Total members' equity to total assets	16.95%	17.27%	16.74%	16.76%	16.04%
Debt to members' equity (:1)	4.90	4.79	4.98	4.97	5.24
Allowance for loan losses to loans	1.62%	1.91%	2.24%	2.20%	2.32%
Permanent capital ratio	16.93%	17.43%	17.13%	17.69%	16.91%
Common equity tier 1 capital ratio	16.74%	17.23%	16.93%	17.48%	16.72%
Tier 1 capital ratio	16.74%	17.23%	16.93%	17.48%	16.72%
Total regulatory capital ratio	17.99%	18.49%	18.20%	18.75%	17.99%
Tier 1 leverage ratio**	16.56%	16.71%	15.96%	16.27%	15.60%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	10.96%	10.67%	9.86%	9.24%	8.27%
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ 6,613	\$ 6,047	\$ 5,631	\$ 5,493	\$ 5,413
Nonqualified retained earnings	—	6,295	8,831	6,788	2,114

* 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 ArborOne, 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 (Board). For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

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

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of 12 counties located in northeastern South Carolina. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural finance experience and knowledge of the market.

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, www.arborone.com, or by calling 1-800-741-7332, extension 2317, or writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, S.C. 29502. 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 needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

Association's financial performance and credit quality are expected to remain sound overall due to strong capital levels and favorable credit quality position at the end of 2023. Non-farm income support for many borrowers also helps to mitigate the impact of periods of less favorable agricultural conditions. However, agricultural borrowers who are more reliant on non-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the reported amount of certain assets or liabilities as well as the recognition of certain income and expense items. In many instances, management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of the 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 loans measured at amortized cost and certain off-balance sheet credit exposures.

The ACL comprises:

- the allowance for loan losses which covers the Association's loan portfolio and is presented separately on the *Balance Sheets*, and
- the ACL on unfunded commitments, which is presented on the *Balance Sheets* in other liabilities.

The ACL takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. Management also considers the imprecision inherent in their process and methodology, which may lead to a management adjustment to the modeled ACL results. See Note 2 for additional information on the 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 and unfunded commitments could result in a change in the ACL and have a direct impact on its provision for credit losses and results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when 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 utilizes third-party valuation services to obtain fair value prices for the majority of the investment securities. 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 (OPO), pension obligations, 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.

ECONOMIC CONDITIONS

Inflation, which was one of the largest economic concerns at the beginning of year, cooled in 2023. After seven rate hikes the previous year, the Federal Reserve increased the federal funds rates an additional four times in 2023, at ¼ point each, with the Prime Rate rising to 8.5%. The rate changes began to take effect and the Consumer Price Index, which started the year up 6%, fell to 3.4% by year end. The US Dollar weakened early but rallied in late summer to erase that decline. GDP growth was slow in the first two quarters but, with help from a stronger Q3, ended at 2.5% for 2023.

US unemployment remained relatively low in 2023, rising slightly from 3.4% in January to 3.7% in December. Employers, including those in agriculture, struggled to find affordable labor.

The agricultural economy performed fairly well. Overall favorable weather contributed to good production levels in the Southeast, especially for corn, and timely harvests. Crop prices were down from 2022 levels as larger global supplies weighed on some of the agricultural commodities. USDA's net farm income estimate for 2023 was \$155.9B. While still one of the best years on record, it is also a 16% decline from 2022.

With a few exceptions, crop input expenses leveled out in 2023 after soaring the previous year. Fertilizer and chemicals costs moderated slightly although seed costs remained high. Interest rates rose substantially during the past two years and farmers experienced much

higher interest expense on their operating lines than in recent years. The livestock industries saw mixed results in 2023 but cattle producers enjoyed near record beef prices due to a shrinking national herd.

Credit quality for ArborOne Farm Credit improved slightly during 2023. Agricultural commodity prices fell in the latter part of the year, and this will exert downward pressure on credit quality going forward as farm profitability is challenged.

During 2023, the Association followed prudent lending practices and policies in order to strengthen earnings, capital and credit quality. With this course of action, the Association has the tools necessary to weather any difficulties that may arise. ArborOne Farm Credit will continue to serve its mission, promote agriculture, enhance its value to our stockholders and provide support for our rural communities in 2024. Loan demand will likely be stable due to uncertain economic conditions; however, the possibility for rate cuts exists later in the year which could increase demand for credit.

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's loan volume by type for each of the past three years is shown below:

Loan Type	December 31,					
	2023		2022		2021	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 388,996	58.04 %	\$ 361,028	58.12 %	\$ 334,280	57.33 %
Production and intermediate-term	199,072	29.70	193,060	31.08	202,506	34.73
Loans to cooperatives	2,786	0.42	2,106	0.34	2,186	0.37
Processing and marketing	33,741	5.04	32,986	5.31	20,051	3.44
Farm-related business	21,698	3.24	15,616	2.51	13,126	2.25
Communication	2,771	0.41	2,918	0.47	—	—
Power and water/waste disposal	7,216	1.07	685	0.11	684	0.12
Rural residential real estate	13,026	1.94	11,033	1.78	9,348	1.60
International	942	0.14	1,725	0.28	945	0.16
Lease receivables	—	—	—	—	—	—
Total	\$ 670,248	100.00 %	\$ 621,157	100.00 %	\$ 583,126	100.00 %

While the Association primarily originates loans and provides financially related services to qualified stockholders in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by type of loan, geographic location, and commodity.

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

County	December 31,		
	2023	2022	2021
Clarendon	13.6%	14.6%	15.1%
Darlington	10.7	9.7	9.6
Horry*	8.6	8.6	8.9
Florence*	8.3	8.7	8.4
Sumter	7.4	7.9	8.5
Lee	4.8	5.4	6.0
Williamsburg	4.3	4.5	5.3
Georgetown	3.4	3.7	3.8
Chesterfield	3.1	3.5	4.1
Dillon	2.6	3.0	3.7
Marion	2.0	2.1	2.7
Marlboro	1.1	1.1	1.0
Other**	30.1	27.2	22.9
Total	100.0%	100.0%	100.0%

*Branch Locations

**The Other category above consists of loans originated and participated outside our territory.

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 predominant commodities are forestry and logging, cash grains, poultry and eggs, and field crops, which constitute approximately 66 percent of the entire portfolio.

Commodity Group	December 31,					
	2023		2022		2021	
	<i>(dollars in thousands)</i>					
Forestry & Logging	\$ 157,162	24 %	\$ 121,659	19 %	\$ 76,290	13 %
Cash Grains	108,823	16	89,094	14	91,452	16
Poultry & Eggs	86,950	13	82,348	13	79,831	14
Field Crops	83,806	13	92,462	14	98,082	17
General Farms	52,891	8	59,961	9	47,542	8
Miscellaneous	52,024	8	57,010	9	93,638	16
Livestock & Animal Specialties	42,187	6	42,945	7	38,482	6
Agricultural Services	29,020	4	23,744	4	18,187	3
Food Preparations	20,953	3	16,293	3	7,919	1
Rural Home Loans	14,258	2	11,732	2	9,802	1
Horticultural Specialties	6,855	1	7,160	1	8,984	1
Vegetables & Fruits	5,546	1	6,387	1	6,689	1
Mission Related Investments	5,148	1	5,377	1	5,593	1
Rural Utilities	2,771	—	2,918	1	—	—
Tobacco Stem & Redry	1,576	—	1,768	1	609	1
Non-Farm Income	278	—	299	1	26	1
Total	\$ 670,248	100 %	\$ 621,157	100 %	\$ 583,126	100 %

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's largest concentrations based on risk exposure are in cash grains, cotton, forestry, poultry, and non-farm services. Although a large percentage of the loan portfolio is concentrated in these industries, many of these operations are diversified within their enterprise and/or with crop production and additional sources of income, including non-farm businesses and salaried income, which reduces overall risk exposure.

Similar to 2022, the overall increase in loan volume for the twelve months ended December 31, 2023, was primarily attributed to an increase in new term loans originated and a slight increase in purchased participation loans. The Association utilizes purchased participation loans to diversify credit concentration and geographical concentration risk. The strategy is to purchase accounts with acceptable credit risk to the Association that also provide geographical and commodity repayment diversification. In 2023, the Association saw an increase in purchased participation loans given the market conditions allowing the Association to enter into profitable loan transactions that diversified the overall credit portfolio risk.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. In 2023 and 2022, participations sold loan volume decreased due to the payoff of sold loan relationships. This was offset by additional loans originated by the Association that were partially participated with other Farm Credit lenders to diversify risk for ArborOne's portfolio.

Loan Participations:	December 31,		
	2023	2022	2021
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 74,703	\$ 62,655	\$ 41,529
Participations Purchased			
– Non-FCS Institutions	—	—	—
Participations Sold	(18,101)	(19,260)	(20,163)
Total	\$ 56,602	\$ 43,395	\$ 21,366

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

The sale of qualified long-term residential mortgage loans was an area of market expansion for the Association in 2023. Loans for resale totaling \$2,046 were originated and sold in 2023.

The Association may enter guarantee arrangements with certain Government Sponsored Enterprises (GSEs), including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies to mitigate the risk of loan losses. The Association had no loans in the Farmer Mac Long Term Stand-By program as of December 31, 2023, 2022, or 2021; however, it did have guaranteed loans with Farm Services Agency (FSA) and other federal agencies in the amount of \$73,114 at December 31, 2023, compared to \$80,121 at December 31, 2022, and \$87,999 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 under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the associations to make investments in Rural America Bonds under a three-year pilot period, and in October 2008 approved a continuation of the program. Effective December 31, 2014, 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 are concluded, the FCA can consider future requests on a case-by-case basis. 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, economic development, infrastructure, or community development and revitalization projects in rural areas. Examples included investments in value-added food and fiber processors/marketers, agribusiness, rural commercial enterprises, community services, schools, hospitals, and municipalities. These along with many other activities that sustain or revitalize rural communities and their economies were a focus. The objective of this program was to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of capital to rural areas through bond financing.

These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2023, 2022, and 2021, the Association had \$5,145, \$5,377, and \$5,594, respectively, in Rural America Bonds classified as Loans and \$4,887, \$5,080, and \$7,599, respectively, in Rural American Bonds classified as Investments on the Consolidated Balance Sheets.

Refer to Note 4, *Investments*, of the Notes to the Consolidated Financial Statements for additional information regarding the Mission Related Investments.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The investment securities currently held by the Association are classified as held-to-maturity and consist solely of Mission Related Investments discussed in the preceding section. In 2023, investment securities decreased by \$193 which was mainly due to normal payments totaling \$186, and the amortization of the net unrealized loss from the transfer to HTM in the amount of \$7. The decrease of \$2,519 in 2022 was from the payoff of one investment as well as normal payments and amortization.

CREDIT RISK MANAGEMENT

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

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

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 projected future cash flows from operations or other sources of income, including non-farm income. The Association complies with all regulatory requirements for collateral and loan terms for all loans within its portfolio. 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	98.96%	98.04%	96.57%
Substandard	1.04%	1.96%	3.43%
Doubtful	–%	–%	–%
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, including accrued interest, are detailed below:

High-risk Assets	December 31,		
	2023	2022	2021
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 2,557	\$ 5,764	\$ 11,400
Restructured loans	–	4,279	8,249
Accruing loans 90 days past due	–	–	–
Total high-risk loans		10,043	19,649
Other property owned	–	137	195
Total high-risk assets	\$ 2,557	\$ 10,180	\$ 19,844
Ratios			
Nonaccrual loans to total loans	0.38%	0.93%	1.95%
High-risk assets to total assets	0.38%	1.59%	3.27%

Nonaccrual loans consist of loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased \$3,207 or 55.63 percent in 2023. The decrease was mainly due to repayments, charge-offs, and the reinstatement of a few core loans to accruing status. Of the \$2,557 in nonaccrual volume at December 31, 2023, \$172 or 6.73 percent was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Prior to the adoption of updated FASB guidance on loan modifications on January 1, 2023, restructuring of loans was available and reported within high-risk assets when the Association granted a concession to a borrower experiencing financial difficulty that was based on either a court order or good faith in a borrower’s ability to return to financial viability. With the updated guidance now in effect for 2023, troubled debt restructuring for creditors has been eliminated. 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. For the year ending December 31, 2023, the Association did not have any loan modifications that require disclosure for borrowers experiencing financial difficulty.

Allowance for Loan Losses

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

The following table presents the activity in the allowance for loan losses for each of the past three years:

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2023	2022	2021
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 11,852	\$ 13,037	\$ 11,790
Cumulative effect of change in accounting principle	(1,173)	–	–
Charge-offs:			
Real estate mortgage	(899)	(41)	(177)
Production and intermediate-term	(736)	(656)	(1,046)
Agribusiness	(480)	(111)	(663)
Rural residential real estate	–	(5)	–
Total charge-offs	<u>(2,115)</u>	<u>(813)</u>	<u>(1,886)</u>
Recoveries:			
Real estate mortgage	50	204	208
Production and intermediate-term	707	561	423
Agribusiness	100	271	–
Total recoveries	<u>857</u>	<u>1,036</u>	<u>631</u>
Net (charge-offs) recoveries	<u>(1,258)</u>	<u>223</u>	<u>(1,255)</u>
Provision for (reversal of allowance for) loan losses	1,448	(1,408)	2,502
Balance at end of year	<u>\$ 10,869</u>	<u>\$ 11,852</u>	<u>\$ 13,037</u>
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	<u>(0.198)%</u>	<u>0.037%</u>	<u>(0.225)%</u>

The loan charge-offs were primarily associated with several large core loans that deteriorated in credit quality during the year and did not maintain sufficient collateral to protect the Association from incurring potential loss of principal. The recoveries were mainly attributed to several nonaccrual loans that paid in part or in full during the year with their own funds or funds received through Farm Service Agency guarantee programs funded through the Inflation Reduction Act.

The \$1,448 provision for loan loss in 2023 included a \$1,001 provision in general reserves as loan volume increased and the methodology used to calculate the allowance changed from historical loss to the CECL model beginning in 2023. The provision in 2023 also included \$447 for specific reserves to cover potential losses on substandard loans.

The allowance for loan losses by loan type for the most recent three years is shown in the table below:

	Year Ended December 31,					
	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 5,888	54.18%	\$ 4,095	34.55%	\$ 3,929	30.14%
Production and intermediate-term	3,262	30.01	6,371	53.76	7,599	58.29
Agribusiness	1,372	12.62	1,244	10.50	1,388	10.65
Communication	12	0.11	18	0.15	–	–
Power and water/waste disposal	38	0.35	5	0.04	5	0.04
Rural residential real estate	278	2.56	113	0.95	110	0.84
International	19	0.17	6	0.05	6	0.04
Total	<u>\$ 10,869</u>	<u>100.00%</u>	<u>\$ 11,852</u>	<u>100.00%</u>	<u>\$ 13,037</u>	<u>100.00%</u>

The allowance for loan losses as a percentage of loans outstanding and as a percentage of nonaccrual loans is shown below:

Allowance for Loan Losses as a Percentage of:	December 31,		
	2023	2022	2021
Total loans	1.62%	1.91%	2.24%
Nonaccrual loans	425.07%	205.62%	114.36%

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

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2023 totaled \$12,647, a decrease of \$3,054 or 19.45 percent when compared to \$15,701 for the same period of 2022. Net income for 2022 increased by \$446 or 2.92 percent in comparison with the \$15,255 reported for the same period of 2021.

Net interest income increased in 2023 over the prior year but was offset by additional provisions for anticipated future credit losses needed in 2023 compared to a provision reversal reported in 2022. Noninterest income reported a decrease from the prior year as patronage refunds received from other Farm Credit institutions were \$2,515 less in 2023. Local earnings (net income less patronage received from other cooperatives) for the year ended December 31, 2023 decreased only \$539 or 6.0 percent. Local earnings for the year ended December 31, 2023 totaled \$8,404 compared to \$8,943 for the same period in 2022.

Net Interest Income

Net interest income was \$19,603, \$18,139, and \$16,881 in 2023, 2022, and 2021, respectively. Net interest income is the difference between interest income received from Association customers and interest expense paid by the Association on interest bearing liabilities. Net interest income is the principal source of earnings for the Association and is impacted by loan volume, yields on assets, and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual	Total
			Income	
<i>(dollars in thousands)</i>				
12/31/23 - 12/31/22				
Interest income	\$ 1,398	\$ 7,494	\$ (64)	\$ 8,828
Interest expense	657	6,707	–	7,364
Change in net interest income	<u>\$ 741</u>	<u>\$ 787</u>	<u>\$ (64)</u>	<u>\$ 1,464</u>
12/31/22 – 12/31/21				
Interest income	\$ 2,133	\$ 2,769	\$ 32	\$ 4,934
Interest expense	808	2,868	–	3,676
Change in net interest income	<u>\$ 1,325</u>	<u>\$ (99)</u>	<u>\$ 32</u>	<u>\$ 1,258</u>

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

Net interest income increased by \$1,464 or 8.07 percent in 2023 compared to 2022 and increased by \$1,258 or 7.45 percent in 2022 compared to 2021. The increase in 2023 was the result of an increase in loan volume and an increase in rates as the upward trend that started in 2022 continued into 2023.

The Association’s net interest income as a percentage of average earning assets was 3.06 percent on December 31, 2023, compared to 2.96 percent on December 31, 2022, and 2.98 percent on December 31, 2021.

Provision for (Reversal of) Allowance for Credit Losses

Provisions for (reversals of) allowance for credit losses for the most recent three years is shown below:

Provision for (reversal of) allowance for credit losses	For the Year Ended		
	2023	2022	2021
<i>(dollars in thousands)</i>			
General reserves	\$ 1,001	\$ (925)	\$ 178
Specific reserves	447	(483)	2,324
Reserve for unfunded commitments	225	–	–
Total Provisions (Reversals)	<u>\$ 1,673</u>	<u>\$ (1,408)</u>	<u>\$ 2,502</u>

The Association recorded an additional provision for credit losses in 2023 as compared to a provision reversal in the prior year. The increase in provision for 2023 was primarily from an increase in the general reserves as loan volume has increased and the methodology used to calculate the allowance has changed with the implementation of CECL (see Note 2, *Summary of Significant Accounting Policies* for additional information on the Association’s implementation of the CECL accounting standard.) A provision was also recorded for specific reserves which is based on the expected credit loss of specific individual loans. A provision reversal for specific reserves was recorded in the prior year. \$225 of the additional provision reported in 2023 was for unfunded commitments that had previously been reported as other gains (losses) within noninterest income prior to the implementation of CECL effective January 1, 2023. For comparison, the amount of provision for unfunded commitments reported as other gains (losses) was \$68 in 2022. A \$16 reversal of the provision for unfunded commitments was reported for 2021.

Noninterest Income

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

Noninterest Income	For the Year Ended			Percentage	
	December 31,			Increase/(Decrease)	
	2023	2022	2021	2023/ 2022	2022/ 2021
	<i>(dollars in thousands)</i>				
Loan fees	\$ 690	\$ 919	\$ 1,236	(24.92)%	(25.65) %
Fees for financially related services	1,735	1,573	1,335	10.30	17.83
Patronage refund from other Farm Credit Institutions	4,243	6,758	10,211	(37.22)	(33.82)
Gains (losses) on sales of rural home loans, net	20	—	—	—	—
Gains (losses) on sales of premises and equipment, net	(4)	(32)	(3)	87.50	966.67
Gains (losses) on other transactions	16	(169)	146	109.47	(215.75)
Other noninterest income	4	3	4	33.33	(25.00)
Total noninterest income	\$ 6,704	\$ 9,052	\$ 12,929	(25.94)%	(29.99) %

Loan fees declined in 2023 over the previous year but are anticipated to increase in subsequent periods as the fees collected are amortized over the life of the loans. Additionally, the rising rate environment continues to put competitive pressure on the amount of fees collected on new loan relationships given the competitive market environment for lines of credit and shorter term loan relationships with commercial banks.

The increase in fees for financially related services totaled \$162. Financially related service income is primarily generated from commissions on crop insurance policy sales.

Regarding patronage refunds received from other Farm Credit Institutions, the Association received \$3,958 in a patronage refund and \$204 in a special distribution from the Bank for the year ended December 31, 2023, compared to \$3,788 and \$2,848 for 2022, and \$3,673 and \$6,441 for 2021, respectively.

The Association expanded its efforts in the rural residential real estate market and recognized a gain of \$20 on rural home loans sold to the Bank for the year.

With respect to gains (losses) on premises and equipment, during 2022 certain capitalized improvements totaling \$32 were disposed of at the time repairs were made to the administrative building. There were no such disposals in 2023. The \$4 loss reported in 2023 was for equipment taken out of service during the year.

Gains on other transactions were \$16 for 2023 compared to a loss of \$169 reported for 2022. Provision for unfunded commitments had previously been reported as other gains (losses) but is now reported in the provision for credit losses. Additionally, investment gains were reported in the deferred compensation plan compared to losses reported for the plan in 2022.

Noninterest Expense

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

Noninterest Expense	For the Year Ended			Percentage	
	December 31,			Increase/(Decrease)	
	2023	2022	2021	2023/ 2022	2022/ 2021
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 8,154	\$ 8,888	\$ 8,423	(8.26)%	5.52 %
Occupancy and equipment	427	424	420	0.71	0.95
Insurance Fund premiums	827	861	628	(3.95)	37.10
Purchased services	507	417	456	21.58	(8.55)
Data processing	112	137	118	(18.25)	16.10
Other operating expenses	2,077	2,106	1,865	(1.38)	12.92
(Gains) losses on other property owned, net	(60)	106	82	(156.60)	29.27
Total noninterest expense	\$ 12,044	\$ 12,939	\$ 11,992	(6.92)%	7.90 %

Noninterest expense decreased \$895 or 6.92 percent for December 31, 2023, as compared to the same period for 2022 but increased \$947 or 7.90 percent when comparing December 31, 2022 to December 31, 2021.

Salaries and employee benefits saw a decrease in 2023 with lower overall short term incentive payments to employees and increased cost deferral based on the strong number of loans closed during 2023.

Purchased services increased \$90 or 21.58 percent. Professional fees are one of the main items included in purchased services and these fees increased in 2023 as audit fees increased with the implementation of CECL. Contract service fees also increased with the

implementation of the new loan system in 2023, and processing fees are now being paid on qualified long-term residential mortgage loans sold to AgFirst.

The Association had a net gain on other property owned of \$60 for the twelve months ended December 31, 2023. This was mainly due to Inflation Reduction Act funds received from FSA on an OPO account. The Association did not hold any OPOs as of December 31, 2023 as efforts continued to work through collections on non-performing assets.

Income Taxes

The Association recorded a benefit of \$57 for income taxes for the year ended December 31, 2023, as compared to a benefit of \$41 for 2022, and a provision of \$61 for 2021. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended		
	12/31/23	12/31/22	12/31/21
Return on average assets	1.93%	2.53%	2.65%
Return on average members' equity	10.62%	14.45%	15.35%
Net interest income as a percentage of average earning assets	3.06%	2.96%	2.98%
Net (charge-offs) recoveries to average loans	(0.198)%	0.037%	(0.225)%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goals are to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet these goals, the agricultural economy must continue to perform, 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 and crop insurance 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 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.

Total notes payable to the Bank at December 31, 2023 was \$559,065, as compared to \$514,102 at December 31, 2022, and \$489,921 at December 31, 2021. The increase of 8.75 percent when comparing December 31, 2023 to December 31, 2022 was mainly attributed to an increase in originated loan volume. The increase of 4.94 percent when comparing December 31, 2022 to December 31, 2021 was mainly due to an increase in originated loan volume, which was partially offset by a decrease in investment securities. The average volume of outstanding notes payable to the Bank was \$527,689, \$504,978, and \$468,357 for the years ended December 31, 2023, 2022, and 2021, respectively. Refer to Note 6, *Debt - 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.

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. The Association's ability to participate in the Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association. The Association did not have any lines of credit from additional 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 competitively priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or Secured Overnight Financing Rate (SOFR). Adjustable rate mortgages may be indexed to U.S. Treasury Rates or other indexes. 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 on the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. All Association debt with the Bank is match funded with an index or fixed rate that matches the loan asset. The Bank, in turn, actively utilizes funds management techniques to identify, quantify, and control risk associated with their loan portfolio.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Debt - 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, *Investments – 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 Sources" section of this Management's Discussion and Analysis and in Note 6, *Debt - Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements included in this Annual Report.

CAPITAL RESOURCES

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

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

Total members' equity at December 31, 2023 increased 6.72 percent to \$118,074 from the December 31, 2022 total of \$110,636. At December 31, 2022, total members' equity increased 8.93 percent from the December 31, 2021 total of \$101,565. The increase from prior year was primarily attributed to an increase in retained earnings and the impact of the adoption of the CECL accounting standard.

Total capital stock and participation certificates were \$1,983 on December 31, 2023, compared to \$1,914 on December 31, 2022, and \$1,858 on December 31, 2021. The increase from prior year of \$69 was a result of growth in originated loan relationships to new Association members.

FCA sets regulatory capital requirements for System banks and associations. 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 risk-based capital ratios. The regulations also include a tier 1 leverage ratio and an unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio.

The permanent capital, CET1, tier 1, and total capital ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by a risk-adjusted asset base. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. The tier 1 leverage ratio and URE and URE equivalents component of the tier 1 leverage ratio do not incorporate any risk-adjusted weighting of assets. These ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions.

For all periods represented, the Association exceeded minimum regulatory standards for all the 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		
				2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	2.5%	7.0%	16.74%	17.23%	16.93%
Tier 1 Capital Ratio	6.0%	2.5%	8.5%	16.74%	17.23%	16.93%
Total Capital Ratio	8.0%	2.5%	10.5%	17.99%	18.49%	18.20%
Permanent Capital Ratio	7.0%	–%	7.0%	16.93%	17.43%	17.13%
Non-risk-adjusted ratios:						
Tier 1 Leverage Ratio *	4.0%	1.0%	5.0%	16.56%	16.71%	15.96%
UREE Leverage Ratio	1.5%	–%	1.5%	10.96%	10.67%	9.86%

* 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 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, and to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) non-patronage loans, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members’ Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared current year earnings attributable cash patronage distributions of \$6,613 in 2023, \$6,047 in 2022, and \$5,631 in 2021.

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

The Association’s mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual goals to increase its market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. The Association had met all of its YBS goals as of December 31, 2023 except the goal of \$62,500 in loans to Young farmers.

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

	As of December 31, 2023	
	Number of Loans	Amount of Loans
Young	474	\$61,524
Beginning	894	136,493
Small	1326	174,533

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

The 2017 USDA Ag census data has been used as a benchmark to measure penetration of the Association’s marketing efforts.

Slight differences between the Census and the Association’s YBS information are as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association’s YBS information shows young farmers up to age 35.
- The Census shows years on present farm up to nine years, whereas the Association’s YBS information shows 10 years or less for a beginning farmer.

- The Census data is based on number of farms, whereas the Association's YBS information is based on number of loans.

The 2017 census data indicated that within the Association's chartered territory (counties) there were 4,802 reported farmers of which by definition 431 or 8.98 percent were Young, 1,344 or 27.99 percent were Beginning, and 4,232 or 88.13 percent were Small. Comparatively, as of December 31, 2023, the demographics of the Association's agricultural portfolio (by definition) are as follows: 474 or 13.88 percent were Young, 894 or 26.18 percent were Beginning, and 1,326 or 38.83 percent were Small.

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

- *Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
- **Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
- ***Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than \$250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made. (Effective January 1, 2024, the regulatory definition of Small farmer increased to annual gross cash farm income of less than \$350.)

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 14, 2024.

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 - Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The enhanced rate reconciliation will require tabular reporting by amount and percentage for specifically defined reconciling

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Unincorporated Business Entities

The Association held no equity investments at December 31, 2023 in Unincorporated Business Entities (UBEs).

Description of Property

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

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
800 Woody Jones Boulevard Florence	Administrative/ Branch	Owned
1720 Mill Pond Road Conway	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 Consolidated Financial Statements included in this Annual Report.

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

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

Name and Title	Term of Office	Term of Office
Bryant Sansbury <i>President and Chief Executive Officer</i>	1/1/2021 – present	Started with ArborOne in 2013 as a relationship manager. Served as Chief Relationship Manager before assuming his role as Chief Sales and Marketing Officer in July 2019. In October 2019, assumed the role of Chief Operating Officer. As of January 2021, assumed the role of President and Chief Executive Officer. Additionally, serves on the Palmetto Agribusiness Council Board and as a Commissioner for the Florence County Soil & Water Conservation District.
Brad Fjestad <i>Chief Financial Officer and Treasurer</i>	12/1/2021 – present	Started with ArborOne in 2021 as Deputy Chief Financial Officer and assumed the role of Chief Financial Officer and Treasurer in December 2021.
Sarah H. Jackson, <i>Chief Administrative Officer and Corporate Secretary</i>	1/1/2022 – present	Started with ArborOne in 2006 as a financial analyst. Served as a Senior Credit Analyst and Senior Human Resources Administrator / Corporate Secretary. In 2016, assumed the role of Director of Human Resources and in January 2018, assumed the role of Chief Human Resources Officer. As of January 2022, assumed the role of Chief Administrative Officer. Additionally, serves on the Farmer Veteran Coalition of South Carolina Board.
Leah B. Hollifield, <i>Chief Credit Officer</i>	7/1/2019 – present	Started with ArborOne in 2005 as a credit analyst. Served as the Credit Administrator and Director of Credit Administration before being named Chief Credit Officer in March 2019. Additionally, serves on the Francis Marion University School of Business Advisory Board.

The total amount of compensation (in whole dollars) earned by the CEO, senior officers (excluding the CEO), and other highly compensated employees 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 incentive.

Name of Individual or Number in Group	Year	Received Compensation		
		Salary	Incentive	Total Received Compensation (a)
Bryant Sansbury	2023	\$ 318,000	\$ 283,041	\$ 601,041
Bryant Sansbury	2022	\$ 300,000	\$ 310,157	\$ 610,157
Bryant Sansbury	2021	\$ 267,908	\$ 168,438	\$ 436,346
5	2023	\$ 870,024	\$ 644,427	\$ 1,514,451
5	2022	\$ 836,094	\$ 750,365	\$ 1,586,459
6*	2021	\$ 879,291	\$ 445,917	\$ 1,325,208

*The 2021 salary and incentive amounts disclosed in the above chart include a partial year for one officer.

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, senior officers (excluding the CEO), and other highly compensated employees as a group is also presented here.

Name of Individual or Number in Group	Year	Perquisites and Noncash Compensation			
		Change in Pension*	Deferred / Perq. **	Total Perquisites and Noncash (b)	Total Received and Noncash Compensation (a+b)
Bryant Sansbury	2023	\$ –	\$ 55,493	\$ 55,493	\$ 656,534
Bryant Sansbury	2022	\$ –	\$ 49,342	\$ 49,342	\$ 659,499
Bryant Sansbury	2021	\$ –	\$ 32,016	\$ 32,016	\$ 468,362
5	2023	\$ 135,055	\$ 85,474	\$ 220,529	\$ 1,734,980
5	2022	\$ (165,174)	\$ 129,513	\$ (35,661)	\$ 1,550,797
6***	2021	\$ 116,324	\$ 272,288	\$ 388,612	\$ 1,713,820

* 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 Deferred/Perquisites amount disclosed in the above chart includes automobile allowance, deferred compensation, accrued long term incentive plan, life insurance, relocation payments, annual leave payout for one officer, and spousal travel.

***The above chart includes a partial year for one officer who was not employed at December 31, 2021

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.

The Association participates in District and multi-district sponsored benefit plans. Change in pension value is considered a part of compensation. The table below illustrates the present value of pension benefits for the CEO, senior officers, and other highly compensated employees as a group. 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:					
*Bryant Sansbury	2023	AgFirst Retirement Plan		\$ -	\$ -
			Total	\$ -	\$ -
Senior Officers and Highly Compensated Employees:					
* 1, excluding the CEO	2023	AgFirst Retirement Plan		\$ 834,510	\$ -
			Total	\$ 834,510	\$ -

* CEO and three of the other three senior officers are not part of the AgFirst Retirement Plan as they were employed after January 1, 2003.

The CEO and senior officers are eligible to participate in an annual short term incentive program as established by the Board of Directors. The plan is approved annually by the Board of Directors and ensures the criteria of the plan are aligned with the business strategy, mission to support rural America, and short- and long-term goals of the Association. Criteria for payment include association performance compared to budgeted net income, credit quality, payment delinquency, credit administration ratings, and capital ratios. Payments for some senior officers or highly compensated employees include, in addition to the previous metrics, loan portfolio profitability and credit quality. The short-term incentive plan measures performance over the current fiscal year with payments received in the following year once after year end results are calculated. Officers and employees covered by the plan must achieve individual performance metrics to be eligible for plan payments in addition to the overall compliance of regulatory requirements by the Association.

Certain senior officers, including the CEO, are eligible to receive long term incentive compensation through a long-term incentive plan established by the Board of Directors. The long-term plan is based on long-range financial results achieved over a three-year period. The objective of the plan is to reward and retain key personnel as well as establish long-range goals to protect Association viability. Long-term incentive awards are earned over a three-year performance period. The award is subject to forfeiture based upon the Association's performance during the three-year performance period following the plan year.

Directors

The following chart details the year the director began serving on the Board, the current term of expiration, and total cash compensation paid for 2023:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMPENSATION PAID DURING 2023
William DuPree Atkinson, <i>Chairman</i>	1999	2025	\$44,250
John Lee Newman, <i>Vice-Chairman</i>	2008	2026	51,000
Kyle Daniel	2021	2027	41,900
Harry B. Durant	1997	2028	36,600
John E. Lay	2017	2029	38,400
J. Whit Player	2011	2029	43,000
James M. Ward	1998	2024	37,300
Kelly O. Wiseman	2007	2025	56,800
			<u>\$349,250</u>

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Committee assignments can change during the year.

William DuPree Atkinson, Chairman of the Board, is a self-employed farmer and owner of Atkinson Farms, LLC. He served on the board of Pee Dee Peanut, LLC (peanut purchasing) and Peanut Properties LLC in which he is an officer and has part ownership interest. He also served on the State Peanut Board (peanuts), the State Tobacco Board (tobacco), Marion County Farm Bureau (insurance), and the AgFirst Farm Credit Bank Legislative Advisory Committee (agriculture). As Chairman, he served on all board committees during 2023.

John Lee Newman, Vice Chairman of the Board, is a self-employed farmer and owner of Lee Newman Farms, JLN Services LLC (planting services), and a partner of A & L Farms (poultry). He served on the board of St. Charles Gin Company (cotton ginning) in which he has part ownership interest. He also served on the board of Sumter County Farm Bureau (insurance), the AgFirst Farm Credit District Advisory Committee (agriculture), and is a commissioner on the Sumter County Soil and Water conservation Board (agriculture). He served as Chairman of the Compensation Committee and served on the audit and governance committees during 2023.

Kyle W. Daniel, is retired from Georgetown County Farm Service Agency after 36 years of service as County Executive Director. He served on the Advisory Board for the Carvers Bay Chapter of the Future Farmers of America (education), the Clemson University Extension Advisory council (education), and was the alternate to the AgFirst Farm Credit Bank Legislative Advisory Committee (agriculture). He served on the audit committee during 2023.

Harry B. DuRant, Chairman of the Governance Committee, is a self-employed farmer and part owner of Double D Farms. He served as an alternate to the AgFirst Farm Credit Bank District Advisory Committee (agriculture) and served on the Clemson Extension Advisory Council (education). He served on the credit and governance committees during 2023.

John E. Lay, Chairman of the Credit Committee, retired from AgFirst Farm Credit Bank in February 2016 as Vice President and Treasurer after approximately 34 years of service. He served on the governance and credit committees during 2023.

J. Whit Player, is a self-employed farmer and owner of J. Whit Player Farm and Player's Stoney Run Farm as well as part owner of Canoe Slough, LLC and St. Charles Gin Company. He is also a forestry technician with SC Forestry Commission. He served on the board of the South Carolina Boll Weevil Eradication Committee (agriculture) and is the Vice Chairman of the Carolina Cotton Growers Cooperative Board (cotton). Additionally, he serves on the AgFirst Farm Credit Bank Board (agriculture) and was a member of the Risk Policy committee. He served on the credit and compensation committees during 2023.

James M. Ward, is a self-employed farmer and partner of Mickey Ward Farms. He served on the credit and compensation committees during 2023.

Kelly O. Wiseman, Chairman of the Audit Committee, is a certified public accountant with approximately 15 years of experience with a major accounting firm. She served on the compensation and audit committees during 2023.

Subject to approval by the Board, the Association may allow directors honoraria of \$1,300 for attendance at meetings or special assignments, except for the Chairman of the Board who receives \$1,450. Directors are paid honoraria \$500 for committee meetings and \$600 if chairman of the committee. Outside directors are paid a \$750 quarterly retainer. The Chairman of the Audit Committee is paid a \$3,750 quarterly honorarium effective June of 2022. The directors are paid honoraria on a quarterly basis and includes a payment for each month within the quarter that does not have a scheduled board or special meeting as well. Total compensation paid to directors as a group was \$349,250 for 2023. No director received more than \$5,000 in non-cash compensation during the year.

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

Name of Director	Days Served		Committee Assignments**	Comp. Paid for other Activities*
	Regular Board Meetings	Other Official Activities*		
William Dupree Atkinson, <i>Chairman</i>	5	29	Audit Committee, Governance Committee, Compensation Committee, and AgFirst Farm Credit Bank Legislative Advisory Committee	\$ 26,850
John Lee Newman, <i>Vice-Chairman and Chairman of Compensation Committee</i>	5	35	Governance and Audit Committees, Chairman of the Compensation Committee, and AgFirst Farm Credit Bank District Advisory Committee	35,400
Kyle Daniel	5	29	Governance Committee, Audit Committee, and an Alternate to the AgFirst Farm Credit Bank Legislative Advisory Committee	26,300
Harry B. Durant <i>Chairman of Governance Committee</i>	5	22	Credit Committee, Chairman of the Governance Committee, and an Alternate to the AgFirst Farm Credit Bank District Advisory Committee	21,000
John E. Lay, <i>Chairman of Credit Committee</i>	5	21	Governance Committee and Chairman of the Credit Committee	22,800
J. Whit Player,	5	26	Credit Committee and Compensation Committee	27,400
James M. Ward	5	21	Credit Committee and Compensation Committee	21,700
Kelly O. Wiseman, <i>Chairman of Audit Committee</i>	5	23	Compensation Committee and Chairman of the Audit Committee	41,200
				\$ 222,650

* Includes board committee meetings and other board activities other than regular board meetings.
 ** Assignments are for the full 12 months of 2023 unless otherwise noted.

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$112,053 for 2023, \$110,664 for 2022, and \$50,039 for 2021.

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.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2023, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. Some directors have transacted business with borrowers of the Association. These transactions were performed at market prices, at an arm’s length, and in the normal course of business. 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.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

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

Aggregate fees paid by the Association for services rendered by its independent auditors for the year ended December 31, 2023 were as follows:

	2023
<i>Independent Auditors</i>	
PricewaterhouseCoopers LLP	
Audit services	\$ 117,530
Total	\$ 117,530

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

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 7, 2024, and the report of management, which appear in this Annual Report, are incorporated herein by reference. Copies of the Association’s Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-800-741-7332, or writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, www.arborone.com. The Association prepares an electronic version of the Annual Report which is available on the Association’s website within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

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

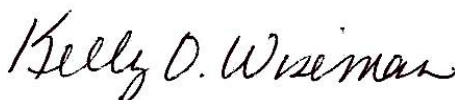
Report of the Audit Committee

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

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

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 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*). The Committee discussed with PwC its independence from ArborOne, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

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



Kelly O. Wiseman
Chairman of the Audit Committee

Members of Audit Committee

William Dupree Atkinson
Kyle Daniel
John Lee Newman

March 7, 2024



Report of Independent Auditors

To the Management and Board of Directors of ArborOne, ACA

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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



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

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

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

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

Other Information

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

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

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 7, 2024

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31,		
	2023	2022	2021
Assets			
Cash	\$ 2	\$ 3	\$ 3
Investments in debt securities:			
Held to maturity (fair value of \$4,582, \$4,618, and \$8,431, respectively)	4,887	5,080	7,599
Loans	670,248	621,157	583,126
Allowance for loan losses	(10,869)	(11,852)	(13,037)
Net loans	659,379	609,305	570,089
Accrued interest receivable	12,343	9,168	8,118
Equity investments in other Farm Credit institutions	10,970	8,183	5,390
Premises and equipment, net	3,875	3,639	3,637
Other property owned	—	137	195
Accounts receivable	4,410	3,932	10,385
Other assets	876	1,134	1,472
Total assets	\$ 696,742	\$ 640,581	\$ 606,888
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 559,065	\$ 514,102	\$ 489,921
Accrued interest payable	2,122	1,539	917
Patronage refunds payable	7,001	6,494	6,171
Accounts payable	827	926	1,563
Advanced conditional payments	3,842	—	—
Other liabilities	5,811	6,884	6,751
Total liabilities	578,668	529,945	505,323
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	1,983	1,914	1,858
Retained earnings			
Allocated	76,627	76,191	70,277
Unallocated	39,565	32,619	29,495
Accumulated other comprehensive income (loss)	(101)	(88)	(65)
Total members' equity	118,074	110,636	101,565
Total liabilities and members' equity	\$ 696,742	\$ 640,581	\$ 606,888

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

Consolidated Statements of Comprehensive Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2023	2022	2021
Interest Income			
Loans	\$ 40,723	\$ 31,834	\$ 26,790
Investments	251	312	422
Total interest income	<u>40,974</u>	<u>32,146</u>	<u>27,212</u>
Interest Expense	<u>21,371</u>	<u>14,007</u>	<u>10,331</u>
Net interest income	19,603	18,139	16,881
Provision for (reversal of) allowance for credit losses	<u>1,673</u>	<u>(1,408)</u>	<u>2,502</u>
Net interest income after provision for (reversal of) allowance for credit losses	<u>17,930</u>	<u>19,547</u>	<u>14,379</u>
Noninterest Income			
Loan fees	690	919	1,236
Fees for financially related services	1,735	1,573	1,335
Patronage refunds from other Farm Credit institutions	4,243	6,758	10,211
Gains (losses) on sales of rural home loans, net	20	—	—
Gains (losses) on sales of premises and equipment, net	(4)	(32)	(3)
Gains (losses) on other transactions	16	(169)	146
Other noninterest income	4	3	4
Total noninterest income	<u>6,704</u>	<u>9,052</u>	<u>12,929</u>
Noninterest Expense			
Salaries and employee benefits	8,154	8,888	8,423
Occupancy and equipment	427	424	420
Insurance Fund premiums	827	861	628
Purchased services	507	417	456
Data processing	112	137	118
Other operating expenses	2,077	2,106	1,865
(Gains) losses on other property owned, net	<u>(60)</u>	<u>106</u>	<u>82</u>
Total noninterest expense	<u>12,044</u>	<u>12,939</u>	<u>11,992</u>
Income before income taxes	12,590	15,660	15,316
Provision (benefit) for income taxes	<u>(57)</u>	<u>(41)</u>	<u>61</u>
Net income	<u>\$ 12,647</u>	<u>\$ 15,701</u>	<u>\$ 15,255</u>
Other comprehensive income net of tax			
Unrealized gains (losses) on investments	(8)	(132)	(18)
Employee benefit plans adjustments	(5)	109	21
Other comprehensive income (loss) (Note 7)	<u>(13)</u>	<u>(23)</u>	<u>3</u>
Comprehensive income	<u>\$ 12,634</u>	<u>\$ 15,678</u>	<u>\$ 15,258</u>

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

Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2020	\$ 1,761	\$ 63,700	\$ 28,864	\$ (68)	\$ 94,257
Comprehensive income			15,255	3	15,258
Capital stock/participation certificates issued/(retired), net	97				97
Patronage distribution					
Cash			(5,631)		(5,631)
Nonqualified retained earnings		8,831	(8,831)		—
Retained earnings retired		(2,409)			(2,409)
Patronage distribution adjustment		155	(162)		(7)
Balance at December 31, 2021	\$ 1,858	\$ 70,277	\$ 29,495	\$ (65)	\$ 101,565
Comprehensive income			15,701	(23)	15,678
Capital stock/participation certificates issued/(retired), net	56				56
Patronage distribution					
Cash			(6,047)		(6,047)
Nonqualified retained earnings		6,295	(6,295)		—
Retained earnings retired		(616)			(616)
Patronage distribution adjustment		235	(235)		—
Balance at December 31, 2022	\$ 1,914	\$ 76,191	\$ 32,619	\$ (88)	\$ 110,636
Cumulative effect of change in accounting principle			1,411		1,411
Comprehensive income			12,647	(13)	12,634
Capital stock/participation certificates issued/(retired), net	69				69
Patronage distribution					
Cash			(6,613)		(6,613)
Patronage distribution adjustment		436	(499)		(63)
Balance at December 31, 2023	\$ 1,983	\$ 76,627	\$ 39,565	\$ (101)	\$ 118,074

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

Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net income	\$ 12,647	\$ 15,701	\$ 15,255
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	351	347	319
Amortization (accretion) of net deferred loan costs (fees)	(117)	(99)	(67)
Premium amortization (discount accretion) on investments in debt securities	(1)	(1)	—
Provision for (reversal of) allowance for credit losses	1,673	(1,408)	2,502
(Gains) losses on other property owned	(72)	79	37
(Gains) losses on sales of premises and equipment, net	4	32	3
(Gains) losses on sales of rural home loans, net	(20)	—	—
(Gains) losses on other transactions	(16)	169	(146)
Changes in operating assets and liabilities:			
Origination of loans held for sale	(2,046)	—	(906)
Proceeds from sales of loans held for sale, net	2,066	—	906
(Increase) decrease in accrued interest receivable	(3,175)	(1,050)	343
(Increase) decrease in accounts receivable	(478)	6,453	(1,236)
(Increase) decrease in other assets	258	338	106
Increase (decrease) in accrued interest payable	583	622	85
Increase (decrease) in accounts payable	(99)	(637)	527
Increase (decrease) in other liabilities	(1,049)	73	(1,124)
Total adjustments	(2,138)	4,918	1,349
Net cash provided by (used in) operating activities	10,509	20,619	16,604
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	186	2,388	280
Net (increase) decrease in loans	(50,300)	(37,786)	(47,598)
(Increase) decrease in equity investments in other Farm Credit institutions	(2,787)	(2,793)	684
Purchases of premises and equipment	(591)	(381)	(288)
Proceeds from sales of premises and equipment	—	—	4
Proceeds from sales of other property owned	277	56	249
Net cash provided by (used in) investing activities	(53,215)	(38,516)	(46,669)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	44,963	24,181	38,571
Net increase (decrease) in advanced conditional payments	3,842	—	—
Capital stock and participation certificates issued/(retired), net	69	56	97
Patronage refunds and dividends paid	(6,169)	(5,724)	(6,193)
Retained earnings retired	—	(616)	(2,409)
Net cash provided by (used in) financing activities	42,705	17,897	30,066
Net increase (decrease) in cash	(1)	—	1
Cash, beginning of period	3	3	2
Cash, end of period	\$ 2	\$ 3	\$ 3
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	\$ 111	\$ —	\$ 160
Receipt of property in settlement of loans	179	77	172
Estimated cash dividends or patronage distributions declared or payable	6,613	6,047	5,631
Change in unrealized gains (losses) on investments	(8)	(132)	(18)
Cumulative effect of change in accounting principle	1,411	—	—
Employee benefit plans adjustments (Note 9)	5	(109)	(21)
Supplemental information:			
Interest paid	\$ 20,788	\$ 13,385	\$ 10,246
Taxes (refunded) paid, net	—	30	—

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:** ArborOne, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers. The territory of the Association extends across a diverse agricultural region of the following 12 counties in northeastern South Carolina: *Chesterfield, Clarendon, Darlington, Dillon, Florence, Georgetown, Horry, Lee, Marion, Marlboro, Sumter, and Williamsburg.*

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

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

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

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

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for loan losses	\$ 11,852	\$ (1,173)	\$ 10,679
Liabilities:			
Allowance for credit losses on unfunded commitments	\$ 611	\$ (238)	\$ 373
Retained earnings:			
Unallocated retained earnings	\$ 32,619	\$ 1,411	\$ 34,030

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

- B. Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held no cash in excess of insured amounts.
- C. Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

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

deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

Nonaccrual Loans

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

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

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

Accrued Interest Receivable

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral Dependent Loans

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

Allowance for Credit Losses

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

- the allowance for loan losses, and
- the allowance for unfunded commitments, which is presented on the Consolidated Balance Sheets in Other Liabilities.

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

Methodology for Allowance for Credit Losses on Loans

The allowance for loan losses represents management’s estimate of credit losses over the remaining expected life of loans. Loans are evaluated on the amortized cost basis, including premiums 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.

- 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 on 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 on the Consolidated Balance Sheets as securities on the trade date.

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

callable debt securities that have explicit, noncontingent call features and that are callable at fixed prices on preset dates are amortized to the earliest call date.

For any debt security transferred into the HTM category, the use of fair value may create a premium or discount that, under amortized cost accounting, shall be amortized or accreted thereafter as an adjustment of yield. OCI amounts resulting from the transfer are also amortized or accreted to interest income ratably over the remaining life of each individual security as an adjustment of yield.

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.

The Association holds minority equity interests in a Rural Business Investment Company (RBIC). This investment is carried at cost less any impairment, plus or minus adjustments resulting from any observable price changes.

Other Investments

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

Allowance for Credit Losses on Investments

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

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

Investment Income

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

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

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

Defined Contribution Plans

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

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

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans

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

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-district sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Authoritative accounting guidance requires the

accrual of the expected cost of providing these benefits to employees, their beneficiaries and covered dependents during the years the employees render service necessary to become eligible for benefits.

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

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

Single Employer Defined Benefit Plan

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

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

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

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

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

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

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

- K. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.
- L. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

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

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

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

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

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

Additional information may be found in Note 8.

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

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

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

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

Financial Instruments

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

Contracts with Customers

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

Gains and Losses from Nonfinancial Assets

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

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

Lessee

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

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

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

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

Lessor

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

Lease income is recognized on a straight-line basis over the lease term. Lease and non-lease components are accounted for separately on 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 on the Consolidated Statements of Comprehensive Income.

Note 3 — Loans and Allowance for Credit Losses

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

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

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

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

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

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

- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31,		
	2023	2022	2021
Real estate mortgage	\$ 388,996	\$ 361,028	\$ 334,280
Production and intermediate-term	199,072	193,060	202,506
Agribusiness:			
Loans to cooperatives	2,786	2,106	2,186
Processing and marketing	33,741	32,986	20,051
Farm-related business	21,698	15,616	13,126
Rural infrastructure:			
Communication	2,771	2,918	–
Power and water/waste disposal	7,216	685	684
Rural residential real estate	13,026	11,033	9,348
Other:			
International	942	1,725	945
Total loans	\$ 670,248	\$ 621,157	\$ 583,126

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	\$ 10,133	\$ 18,101	\$ –	\$ –	\$ –	\$ –	\$ 10,133	\$ 18,101
Production and intermediate-term	18,483	–	–	–	–	–	18,483	–
Agribusiness	35,132	–	–	–	–	–	35,132	–
Rural infrastructure	10,009	–	–	–	–	–	10,009	–
Other	946	–	–	–	–	–	946	–
Total	\$ 74,703	\$ 18,101	\$ –	\$ –	\$ –	\$ –	\$ 74,703	\$ 18,101

	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	\$ 11,034	\$ 3,416	\$ –	\$ –	\$ –	\$ –	\$ 11,034	\$ 3,416
Production and intermediate-term	18,277	2,244	–	–	–	–	18,277	2,244
Agribusiness	28,005	13,600	–	–	–	–	28,005	13,600
Rural infrastructure	3,611	–	–	–	–	–	3,611	–
Other	1,728	–	–	–	–	–	1,728	–
Total	\$ 62,655	\$ 19,260	\$ –	\$ –	\$ –	\$ –	\$ 62,655	\$ 19,260

	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	\$ 12,379	\$ 4,413	\$ –	\$ –	\$ –	\$ –	\$ 12,379	\$ 4,413
Production and intermediate-term	13,527	1,538	–	–	–	–	13,527	1,538
Agribusiness	13,991	14,212	–	–	–	–	13,991	14,212
Rural infrastructure	686	–	–	–	–	–	686	–
Other	946	–	–	–	–	–	946	–
Total	\$ 41,529	\$ 20,163	\$ –	\$ –	\$ –	\$ –	\$ 41,529	\$ 20,163

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	94.72%	93.94%	93.80%
OAEM	4.60	4.42	3.94
Substandard/doubtful/loss	0.68	1.64	2.26
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	91.30%	90.74%	88.22%
OAEM	7.16	6.84	7.04
Substandard/doubtful/loss	1.54	2.42	4.74
	100.00%	100.00%	100.00%
Agribusiness:			
Acceptable	89.88%	91.32%	85.74%
OAEM	8.47	6.01	6.68
Substandard/doubtful/loss	1.65	2.67	7.58
	100.00%	100.00%	100.00%
Rural infrastructure:			
Acceptable	100.00%	100.00%	100.00%
OAEM	-	-	-
Substandard/doubtful/loss	-	-	-
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	94.24%	95.98%	95.00%
OAEM	3.47	2.22	2.77
Substandard/doubtful/loss	2.29	1.80	2.23
	100.00%	100.00%	100.00%
Other:			
Acceptable	100.00%	100.00%	100.00%
OAEM	-	-	-
Substandard/doubtful/loss	-	-	-
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	93.36%	92.82%	91.41%
OAEM	5.60	5.22	5.16
Substandard/doubtful/loss	1.04	1.96	3.43
	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 \$12,296, \$9,120, and \$8,035 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	\$ 2,413	\$ 1,233	\$ 3,646	\$ 385,350	\$ 388,996
Production and intermediate-term	594	217	811	198,261	199,072
Agribusiness	946	205	1,151	57,074	58,225
Rural infrastructure	-	-	-	9,987	9,987
Rural residential real estate	907	9	916	12,110	13,026
Other	-	-	-	942	942
Total	\$ 4,860	\$ 1,664	\$ 6,524	\$ 663,724	\$ 670,248

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	\$ 2,614	\$ 343	\$ 2,957	\$ 362,791	\$ 365,748
Production and intermediate-term	213	2,113	2,326	194,502	196,828
Agribusiness	-	4	4	51,274	51,278
Rural infrastructure	-	-	-	3,607	3,607
Rural residential real estate	41	13	54	11,017	11,071
Other	-	-	-	1,744	1,744
Total	\$ 2,868	\$ 2,473	\$ 5,341	\$ 624,935	\$ 630,276

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	\$ 359	\$ 1,366	\$ 1,725	\$ 336,687	\$ 338,412	
Production and intermediate-term	733	3,230	3,963	202,233	206,196	
Agribusiness	79	1,253	1,332	34,216	35,548	
Rural infrastructure	—	—	—	685	685	
Rural residential real estate	53	—	53	9,321	9,374	
Other	—	—	—	946	946	
Total	\$ 1,224	\$ 5,849	\$ 7,073	\$ 584,088	\$ 591,161	

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

December 31, 2023	
Nonaccrual loans:	
Real estate mortgage	\$ 1,538
Production and intermediate-term	181
Agribusiness	812
Rural residential real estate	26
Total	<u>\$ 2,557</u>
Accruing loans 90 days or more past due:	
Total	<u>\$ —</u>
Total nonperforming loans	\$ 2,557
Other property owned	—
Total nonperforming assets	<u>\$ 2,557</u>
Nonaccrual loans as a percentage of total loans	0.38%
Nonperforming assets as a percentage of total loans and other property owned	0.38%
Nonperforming assets as a percentage of capital	<u>2.17%</u>

	December 31,	
	2022*	2021*
Nonaccrual loans:		
Real estate mortgage	\$ 2,127	\$ 4,382
Production and intermediate-term	2,622	5,225
Agribusiness	815	1,584
Rural residential real estate	200	209
Total	<u>\$ 5,764</u>	<u>\$ 11,400</u>
Accruing restructured loans:		
Real estate mortgage	\$ 2,969	\$ 5,979
Production and intermediate-term	1,093	2,270
Agribusiness	217	—
Total	<u>\$ 4,279</u>	<u>\$ 8,249</u>
Accruing loans 90 days or more past due:		
Total	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	\$ 10,043	\$ 19,649
Other property owned	137	195
Total nonperforming assets	<u>\$ 10,180</u>	<u>\$ 19,844</u>
Nonaccrual loans as a percentage of total loans	0.93%	1.95%
Nonperforming assets as a percentage of total loans and other property owned	1.64%	3.40%
Nonperforming assets as a percentage of capital	<u>9.20%</u>	<u>19.54%</u>

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

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

Nonaccrual loans:	December 31, 2023			Interest Income Recognized on Nonaccrual Loans
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Year Ended December 31, 2023
	Real estate mortgage	\$ 1,220	\$ 318	\$ 1,538
Production and intermediate-term	211	(30)	181	74
Agribusiness	697	115	812	331
Rural residential real estate	–	26	26	10
Total	\$ 2,128	\$ 429	\$ 2,557	\$ 1,041

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for Loan Losses:							
Balance at December 31, 2022	\$ 4,095	\$ 6,371	\$ 1,244	\$ 23	\$ 113	\$ 6	\$ 11,852
Cumulative effect of a change in accounting principle	1,804	(2,974)	(89)	(7)	82	11	(1,173)
Balance at January 1, 2023	\$ 5,899	\$ 3,397	\$ 1,155	\$ 16	\$ 195	\$ 17	\$ 10,679
Charge-offs	(899)	(736)	(480)	–	–	–	(2,115)
Recoveries	50	707	100	–	–	–	857
Provision for loan losses	838	(106)	597	34	83	2	1,448
Balance at December 31, 2023	\$ 5,888	\$ 3,262	\$ 1,372	\$ 50	\$ 278	\$ 19	\$ 10,869
Allowance for Unfunded Commitments:							
Balance at December 31, 2022	\$ 9	\$ 513	\$ 87	\$ –	\$ 2	\$ –	\$ 611
Cumulative effect of a change in accounting principle	3	(239)	(2)	–	(1)	1	(238)
Balance at January 1, 2023	\$ 12	\$ 274	\$ 85	\$ –	\$ 1	\$ 1	\$ 373
Provision for unfunded commitments	21	107	89	–	5	3	225
Balance at December 31, 2023	\$ 33	\$ 381	\$ 174	\$ –	\$ 6	\$ 4	\$ 598
Total allowance for credit losses	\$ 5,921	\$ 3,643	\$ 1,546	\$ 50	\$ 284	\$ 23	\$ 11,467
Allowance for Loan Losses*:							
Balance at December 31, 2021	\$ 3,929	\$ 7,599	\$ 1,388	\$ 5	\$ 110	\$ 6	\$ 13,037
Charge-offs	(41)	(656)	(111)	–	(5)	–	(813)
Recoveries	204	561	271	–	–	–	1,036
Provision for loan losses	3	(1,133)	(304)	18	8	–	(1,408)
Balance at December 31, 2022	\$ 4,095	\$ 6,371	\$ 1,244	\$ 23	\$ 113	\$ 6	\$ 11,852
Balance at December 31, 2020	\$ 3,115	\$ 7,427	\$ 1,178	\$ 38	\$ 26	\$ 6	\$ 11,790
Charge-offs	(177)	(1,046)	(663)	–	–	–	(1,886)
Recoveries	208	423	–	–	–	–	631
Provision for loan losses	783	795	873	(33)	84	–	2,502
Balance at December 31, 2021	\$ 3,929	\$ 7,599	\$ 1,388	\$ 5	\$ 110	\$ 6	\$ 13,037

*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 \$73,114, \$80,121, and \$87,999 at December 31, 2023, 2022, and 2021, respectively. Fees paid for such guaranteed commitments totaled less than \$2 for each of the years presented. 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.

The Association had no loans held for sale at December 31, 2023, 2022, and 2021.

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*				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Production and intermediate-term	\$ 31	\$ -	\$ -	\$ 31	
Agribusiness	-	1,082	-	1,082	
Total	\$ 31	\$ 1,082	\$ -	\$ 1,113	
Post-modification:					
Production and intermediate-term	\$ 31	\$ -	\$ -	\$ 31	\$ -
Agribusiness	-	1,129	-	1,129	-
Total	\$ 31	\$ 1,129	\$ -	\$ 1,160	\$ -

Outstanding Recorded Investment	Year Ended December 31, 2021*				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Real estate mortgage	\$ -	\$ 1,441	\$ -	\$ 1,441	
Production and intermediate-term	-	139	-	139	
Agribusiness	303	873	-	1,176	
Total	\$ 303	\$ 2,453	\$ -	\$ 2,756	
Post-modification:					
Real estate mortgage	\$ -	\$ 1,441	\$ -	\$ 1,441	\$ -
Production and intermediate-term	-	2	-	2	(29)
Agribusiness	303	688	-	991	-
Total	\$ 303	\$ 2,131	\$ -	\$ 2,434	\$ (29)

*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*
Agribusiness	\$ -	\$ 175
Total	\$ -	\$ 175

*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. These loans were included as impaired loans in the impaired loan table.

	Total TDRs		Nonaccrual TDRs	
	December 31,		December 31,	
	2022*	2021*	2022*	2021*
Real estate mortgage	\$ 2,969	\$ 6,169	\$ -	\$ 190
Production and intermediate-term	1,361	2,901	268	631
Agribusiness	1,032	127	815	127
Total loans	\$ 5,362	\$ 9,197	\$ 1,083	\$ 948
Additional commitments to lend	\$ -	\$ -		

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

Note 4 — Investments

Investments in Debt Securities

The Association’s investments consist primarily of 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 HTM investment securities follows:

		December 31, 2023				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
	RABs	\$ 4,887	\$ 4	\$ (309)	\$ 4,582	5.64%

		December 31, 2022				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
	RABs	\$ 5,080	\$ –	\$ (462)	\$ 4,618	5.63%

		December 31, 2021				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
	RABs	\$ 7,599	\$ 832	\$ –	\$ 8,431	5.78%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities 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	4,887	4,582	5.64
	Total	\$ 4,887	\$ 4,582	5.64%

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

An investment is considered impaired if its fair value is less than its cost. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. Following the adoption of CECL on January 1, 2023, this table is no longer required for held-to-maturity securities. Therefore, there is no table presented for the current period. There were no securities in a continuous unrealized loss position for the year ended December 31, 2021.

		December 31, 2022			
		Less than 12 Months		12 Months or Greater	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	RABs	\$ 4,618	\$ (462)	\$ –	\$ –

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

Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association’s investment in the Bank totaled \$10,609 for 2023, \$7,789 for 2022 and \$5,023 for 2021. The Association owned 2.04 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2023, net of any reciprocal investment. As of that date, the Bank’s assets totaled \$45.0 billion and shareholders’ equity totaled \$1.7 billion. The Bank’s earnings were \$265 million for 2023. In addition, the Association had investments of \$361 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	\$ 1,327	\$ 1,327	\$ 1,327
Buildings and improvements	3,488	3,465	3,433
Furniture and equipment	2,421	2,168	1,928
	<u>7,236</u>	<u>6,960</u>	<u>6,688</u>
Less: accumulated depreciation	3,361	3,321	3,051
Total	<u>\$ 3,875</u>	<u>\$ 3,639</u>	<u>\$ 3,637</u>

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 6.29 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 6.24 percent for Prime-based loans, and the weighted average remaining maturities were 4.3 years and 1.0 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 3.84 percent, and the weighted average remaining maturity was 12.3 years at December 31, 2023. The weighted average interest rate on all interest-bearing notes payable was 4.42 percent and the weighted average remaining maturity was 9.9 years at December 31, 2023. Variable rate and fixed rate notes payable represent approximately 6.89 percent and 93.11 percent, respectively, of total notes payable at December 31, 2023. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members’ Equity

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

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

B. Capital Stock and Participation Certificates: In accordance with the Farm Credit Act and the Association’s capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of \$1 thousand or 2 percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association’s capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

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

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

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

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

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

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

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement including Capital Conservation Buffer	Capital Ratios as of December 31,		
				2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	16.74%	17.23%	16.93%
Tier 1 Capital	6.0%	2.5%	8.5%	16.74%	17.23%	16.93%
Total Capital	8.0%	2.5%	10.5%	17.99%	18.49%	18.20%
Permanent Capital	7.0%	0.0%	7.0%	16.93%	17.43%	17.13%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	16.56%	16.71%	15.96%
URE and UREE Leverage	1.5%	0.0%	1.5%	10.96%	10.67%	9.86%

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

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

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

The Association had the following shares outstanding at December 31, 2023:

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
C Common/Voting	No	354,766	\$ 1,774
C Participation Certificates/Nonvoting	No	41,869	209
Total Capital Stock and Participation Certificates		396,635	\$ 1,983

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

Retained Earnings

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

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

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

Allocated equities shall be retired solely at the discretion of the Board provided that minimum capital standards established by the FCA and the Board are met. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2023, allocated members’ equity consisted of \$611 of qualified surplus, \$35,157 of nonqualified allocated surplus, and \$40,859 of nonqualified retained surplus.

Dividends

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

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

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

Patronage Distributions

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

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members’ equity account, or any one or

more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Transfer

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

Impairment

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

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

Liquidation

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

1. Holders of Classes A and D Preferred Stock
2. Holders of Classes A and B Common Stock and Class B Participation Certificates
3. Holders of Class C Common Stock and Class C Participation Certificates
4. 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
5. 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
6. Any remaining assets of the Association after such distributions shall be distributed to past and present patrons on a patronage basis, to the extent practicable.

E. Accumulated Other Comprehensive Income (AOCI):

	Changes in Accumulated Other Comprehensive income by Component (a)					
	For the Year Ended December 31,					
	2023		2022		2021	
Unrealized Gains (Losses) on Investments:						
Balance at beginning of period	\$	114	\$	246	\$	264
Other comprehensive income before reclassifications		-		-		-
Amounts reclassified from AOCI		(8)		(132)		(18)
Net current period OCI		(8)		(132)		(18)
Balance at end of period		106		114		246
Employee Benefit Plans:						
Balance at beginning of period		(202)		(311)		(332)
Other comprehensive income before reclassifications		(15)		94		6
Amounts reclassified from AOCI		10		15		15
Net current period OCI		(5)		109		21
Balance at end of period		(207)		(202)		(311)
Accumulated Other Comprehensive Income:						
Balance at beginning of period		(88)		(65)		(68)
Other comprehensive income before reclassifications		(15)		94		6
Amounts reclassified from AOCI		2		(117)		(3)
Net current period OCI		(13)		(23)		3
Balance at end of period	\$	(101)	\$	(88)	\$	(65)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)						
	For the Year Ended December 31,						
	2023	2022	2021	Income Statement Line Item			
Investment Securities:							
Amortization	\$	8	\$	132	\$	18	Interest income on investments
Amounts reclassified		8		132		18	
Defined Benefit Pension Plans:							
Periodic pension costs		(10)		(15)		(15)	See Note 9.
Amounts reclassified		(10)		(15)		(15)	
Total reclassifications for the period	\$	(2)	\$	117	\$	3	

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 8 — Fair Value Measurement

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

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

December 31, 2023						
Fair Value Measurement Using						Total Fair Value
Level 1	Level 2	Level 3				
Recurring assets						
Assets held in trust funds	\$ 621	\$ —	\$ —	\$ —	\$ —	\$ 621
Nonrecurring assets						
Impaired loans	\$ —	\$ —	\$ 1,376	\$ —	\$ —	\$ 1,376
Other property owned	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

December 31, 2022						
Fair Value Measurement Using						Total Fair Value
Level 1	Level 2	Level 3				
Recurring assets						
Assets held in trust funds	\$ 898	\$ —	\$ —	\$ —	\$ —	\$ 898
Nonrecurring assets						
Impaired loans	\$ —	\$ —	\$ 2,903	\$ —	\$ —	\$ 2,903
Other property owned	\$ —	\$ —	\$ 150	\$ —	\$ —	\$ 150

December 31, 2021						
Fair Value Measurement Using						Total Fair Value
Level 1	Level 2	Level 3				
Recurring assets						
Assets held in trust funds	\$ 1,251	\$ —	\$ —	\$ —	\$ —	\$ 1,251
Nonrecurring assets						
Impaired loans	\$ —	\$ —	\$ 7,452	\$ —	\$ —	\$ 7,452
Other property owned	\$ —	\$ —	\$ 215	\$ —	\$ —	\$ 215

Valuation Techniques

Assets held in trust funds

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

Impaired loans

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

Other property owned

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

Note 9 — Employee Benefit Plans

The Association participates in three District sponsored qualified benefit plans. These plans include a multiemployer defined benefit pension plan, the AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan). In addition, the Association

participates in a multiemployer defined benefit other postretirement benefits plan (OPEB Plan), the Farm Credit Benefits Alliance (FCBA) Retiree and Disabled Medical and Dental Plan, and the FCBA 401(k) Plan, a defined contribution 401(k) plan (401(k) Plan). The risks of participating in these multiemployer plans are different from single employer plans in the following aspects:

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

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

1. The Employer Identification Number (EIN) and three-digit Pension Plan Number.
2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included on 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 \$234 for 2023, \$204 for 2022, and \$869 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, 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 on 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 \$264 for 2023, \$238 for 2022, and \$227 for 2021. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was \$160,980, \$167,895, and \$209,599 at December 31, 2023, 2022, and 2021, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes \$0.50 for each \$1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes \$1.00 for each \$1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002. 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 \$518, \$601, and \$427 for the years ended December 31, 2023, 2022, and 2021, respectively.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2023, 2022, and 2021, \$(5), \$109 and \$21 has been recognized as a net debit, a net credit and a net credit to AOCI to reflect these elements.

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

In addition to the multiemployer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of \$519 and a net under-funded status of \$519 at December 31, 2023. Assumptions used to determine the projected benefit obligation as of December 31, 2023 included a discount rate of 5.00 percent. The expenses of these nonqualified plans included in noninterest expenses were \$72, \$39, and \$39 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 \$9,684. During 2023, \$5,019 of new loans and advances were made and repayments totaled \$6,160. 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, \$129,016 of commitments to extend credit and no commercial letters of credit were outstanding. A reserve for unfunded commitments of \$598 was included in Other Liabilities on the Consolidated Balance Sheets at December 31, 2023.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2023, standby letters of credit outstanding totaled \$691 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 \$691.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2023	2022	2021
Current:			
Federal	\$ (46)	\$ (29)	\$ 49
State	(11)	(12)	12
	(57)	(41)	61
Deferred:			
Federal	-	-	-
State	-	-	-
	-	-	-
Total provision (benefit) for income taxes	\$ (57)	\$ (41)	\$ 61

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

	December 31,		
	2023	2022	2021
Federal tax at statutory rate	\$ 2,644	\$ 3,289	\$ 3,216
State tax, net	(37)	—	4
Patronage distributions	(1,389)	(1,283)	(1,182)
Tax-exempt FLCA earnings	(1,213)	(1,500)	(1,967)
Change in valuation allowance	(53)	(600)	(53)
Change due to graduated rate on nonpat income	—	—	—
Deferred tax rate change	—	—	—
NOL Carryforward	—	—	—
Other	(9)	53	43
Provision (benefit) for income taxes	<u>\$ (57)</u>	<u>\$ (41)</u>	<u>\$ 61</u>

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

	December 31,		
	2023	2022	2021
Deferred income tax assets:			
Allowance for credit losses	\$ 1,175	\$ 1,826	\$ 2,049
Nonaccrual loan interest	472	556	709
Other property owned write-down	—	—	—
NOL Carryforward	495	262	189
Loan origination fees	—	36	27
Gross deferred tax assets	<u>2,142</u>	<u>2,680</u>	<u>2,974</u>
Less: valuation allowance	<u>(1,744)</u>	<u>(2,374)</u>	<u>(2,974)</u>
Gross deferred tax assets, net of valuation allowance	<u>398</u>	<u>306</u>	<u>—</u>
Deferred income tax liabilities:	<u>(398)</u>	<u>(306)</u>	<u>—</u>
Net deferred tax asset (liability)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The Association recorded a valuation allowance of \$1,744, \$2,374, and \$2,974 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	\$ 4,931	\$ 4,651	\$ 5,071	\$ 4,950	\$ 19,603
Provision for (reversal of) allowance for credit losses	55	(3)	1,158	463	1,673
Noninterest income (expense), net	(1,437)	(1,466)	(505)	(1,875)	(5,283)
Net income	<u>\$ 3,439</u>	<u>\$ 3,188</u>	<u>\$ 3,408</u>	<u>\$ 2,612</u>	<u>\$ 12,647</u>

	2022				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,449	\$ 4,382	\$ 4,498	\$ 4,810	\$ 18,139
Provision for (reversal of) allowance for loan losses	(480)	(621)	599	(906)	(1,408)
Noninterest income (expense), net	(1,591)	(1,236)	(970)	(49)	(3,846)
Net income	<u>\$ 3,338</u>	<u>\$ 3,767</u>	<u>\$ 2,929</u>	<u>\$ 5,667</u>	<u>\$ 15,701</u>

	2021				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,966	\$ 4,220	\$ 4,462	\$ 4,233	\$ 16,881
Provision for (reversal of) allowance for loan losses	101	671	1,268	462	2,502
Noninterest income (expense), net	(1,556)	(911)	(462)	3,805	876
Net income	<u>\$ 2,309</u>	<u>\$ 2,638</u>	<u>\$ 2,732</u>	<u>\$ 7,576</u>	<u>\$ 15,255</u>

Note 14 — 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.



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