AgFirst

2023 ANNUAL REPORT

PERSPECTIVE

LEON T. AMERSON
CHIEF EXECUTIVE OFFICER

WILLIAM T. ROBINSON
CHAIRMAN OF THE BOARD

PERSPECTIVE

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER & THE CHAIRMAN OF THE BOARD

2023 brought tests and triumphs to AgFirst Farm Credit Bank as we implemented milestone technology upgrades amid complex conditions.

Following years of preparation, we began our technology refresh in earnest in 2023. Integral to this work was the replacement of two legacy loan accounting systems that had been woven into our technology environment over the past 30-plus years. Although we knew replacing those systems would be difficult from both a technical and a change management perspective, implementation proved to be significantly more challenging than we anticipated. However, the undisputed bright spot in this essential endeavor was the coming together of Bank and Association staff, who stepped up time and again to ensure customer needs continued to be met.

Further complicating matters, interest rates rose significantly leading up to the technology refresh after years of record lows. Since AgFirst is generally more profitable when interest rates fall, earnings returned to more normal levels last year. At the same time, operating expenses grew at a greater pace than they have historically, primarily due to technology-related costs.

Taken together, these factors resulted in a significant, albeit generally expected, decrease in profitability.

So, operationally and financially, 2023 was a challenging year. But to put things in perspective, it was also a pivotal year in the long-term outlook for our District.

LONG-TERM OUTLOOK

The new loan accounting system implemented in 2023 is foundational in that it sits at the heart of our entire technology ecosystem. Launching the platform was a significant win that will help us position our Associations for continued success. While we continue to make refinements, we now have the foundation in place that will support our growth and adoption of new and emerging technologies well into the future.

During 2024, we will replace a number of ancillary systems as we prepare for the launch of a new Districtwide loan origination system in 2025, rounding out our technology refresh and putting the AgFirst District in a very strong position to carry out our mission of serving rural communities and agriculture.

Keeping our long-term business goals in perspective is vital as we continue our journey to position our District for future success in a changing world. Delivering integrated solutions to our Association partners so they can maintain operational efficiency and continue taking advantage of economies of scale for the long term is vital, enabling them to provide the highest level of service to the farmers and rural homeowners who rely on them for funding and other services.

FINANCIAL PERSPECTIVE

From a financial perspective, AgFirst operates as a cooperative serving as an extension of Associations. While meeting their needs as a service provider is essential, we also must generate sufficient income to return profits (patronage) to them after accounting for our operating and capital costs.

The Bank's 2023 net income of $265 million enabled patronage distributions of $247 million to Associations. The lower-than-traditional Bank profitability level is partially a function of AgFirst not passing along cost increases for technology and services to Associations during extended periods of above-normal gains. In response, the Bank and Associations will adjust allocation methodologies over time to ensure adequate Bank profitability and capitalization.

Despite a mixed bag of economic indicators, the Bank continued to experience strong loan growth of 9% last year, including a 12% increase in our Capital Markets portfolio. This loan growth is the result of successful efforts to bring in new clients and meet the needs of our borrowers during a period of rising inflation and input costs.

As we look toward the future, capital investments in our technology systems and dedication to prudent capital and credit risk management position AgFirst to continue meeting the needs of Associations and the agricultural community.

VIEW FROM THE INSIDE

Our District's success would not be possible without the dedication and determination of our exceptional workforce. Challenges tend to bring out either the best or worst in people. The challenges of 2023 certainly brought out the best in employees throughout the AgFirst District. Together, Bank and Association employees stepped up to navigate through the operational and financial challenges we faced.

Our employees truly are the lynchpin of our operations, working tirelessly to run day-to-day activities while also embracing the necessary changes that will give our District an edge in an ever-evolving marketplace.

Even amid the economic headwinds, special projects and day-to-day work, our selfless employees found time to take a broader view of our community and focus on giving back. From monetary donations to dedicating countless volunteer hours, they are making change happen for the most vulnerable in our community.

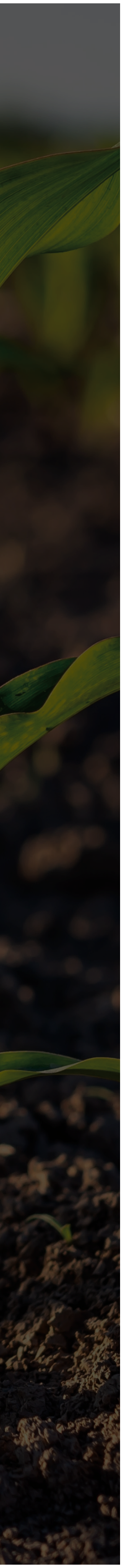
In this report, we highlight three employees who bring varied perspectives to their work at AgFirst. They represent a diverse workforce that is committed to excellence – both inside the workplace and in our community.

From finance and technology to project management and information security, our employees all play key roles in keeping our business running and growing amid the inevitable change all companies face. They are the driving force behind our success in supporting rural communities and agriculture for the past century and the promise that leads us into tomorrow.

Leon T. Amerson
Chief Executive Officer

William T. Robinson
Chairman of the Board

March 7, 2024



STAFF PERSPECTIVES

In their own words...

IRVINDER SINGH | Chief Information Officer

Irvinder joined AgFirst in 2023 and is the newest member of our Executive Committee. He has a background in leading technology divisions at major U.S. banks and a vision for where to take AgFirst's technology department next.

"I am laser-focused on our roadmap for technology implementation and optimization and strengthening our foundational capabilities. I want to ensure we close any integration gaps across our technical ecosystem. We are striving for a simplified design and leveraging reusable design patterns and quality controls to gain operational efficiency across Bank systems. At the same time, we must enhance our use of data to realize the long-term competitive advantages of advanced analytics, artificial intelligence and machine learning."

HAMPTON JORDAN | Relationship Manager

Hampton has been with the Bank for nearly a decade. With a background in project management, he now works with our Association partners as a liaison to ensure they have a voice in our cooperative. Hampton was involved in the ramp up of our technology overhaul and now works with Associations as they begin to adopt the new platforms.

"I see the current technological advancements as pivotal for ensuring the long-term competitiveness of our Associations. Keeping pace with changes in technology requires modern solutions that will be able to evolve along with the rapid advancements being made. One of our most important jobs is providing our Associations with the tools they need to give customers the conveniences they expect in today's market. We are working hand-in-hand with our partners to optimize these platforms so we can continue fulfilling our vital mission of serving rural communities and agriculture."

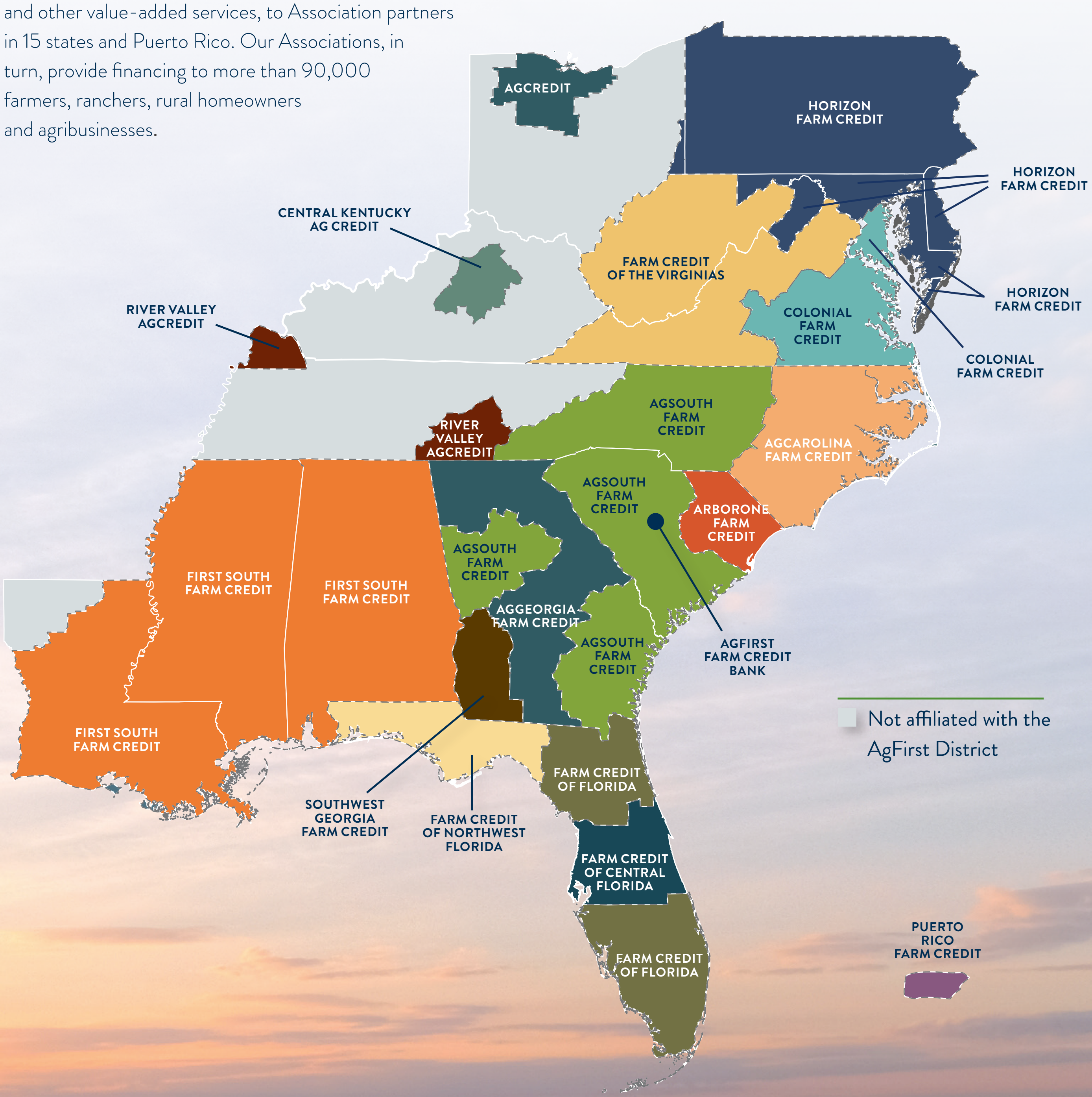
KELLY MATTOX | Director of Association Loan Operations

Kelly represents the kind of dedication and longevity that's hard to come by these days. With the Bank for over 40 years, Kelly has also been heavily involved in the rollout of new technology. She possesses a unique perspective that includes both the legacy knowledge of how loan operations previously worked and the emerging knowledge of how new systems will position our District for the future.

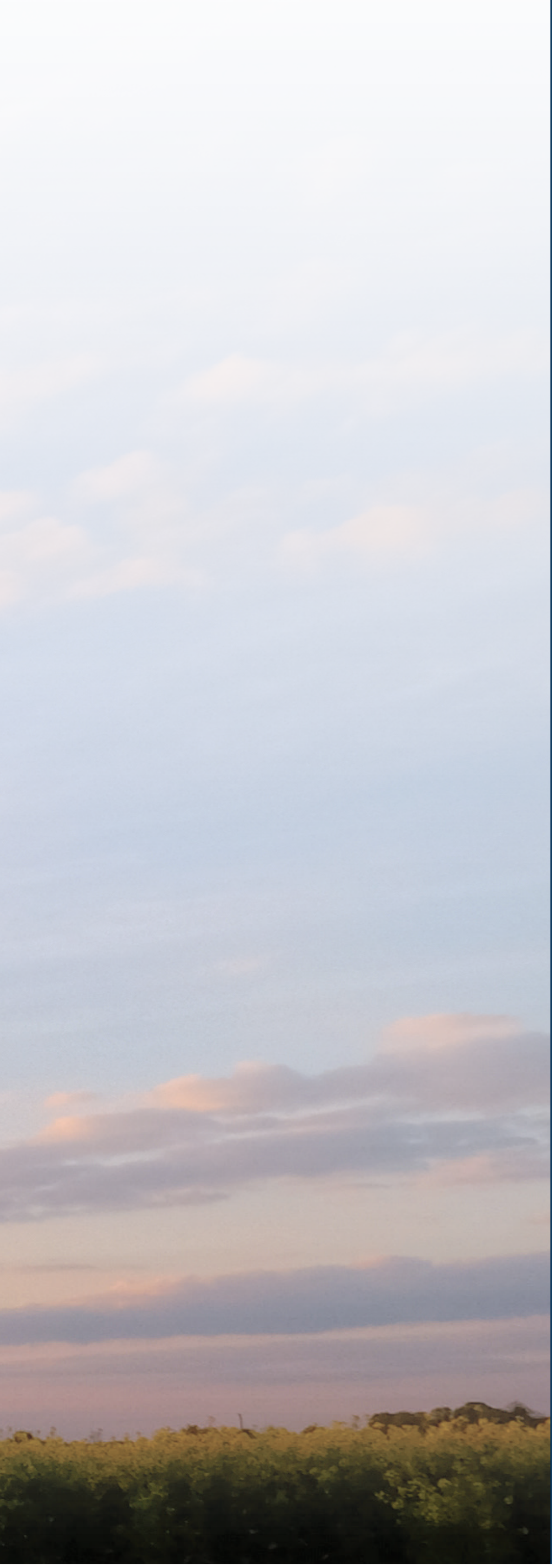
"Moving to vendor-supported systems gives us so many benefits. Vendors stay up to date with changing technology, and we have the benefit of their knowledge and perspective. They also help streamline our compliance efforts, ensuring we continue to meet evolving requirements. Additionally, system users will benefit from a task-based portal to perform work activities and will not have to learn multiple systems. This makes processing more efficient and makes it easier to train new users. What we had was well-worn and well-loved, but we are definitely moving in a much smarter direction. This will serve us well for many years to come."

AGFIRST FARM CREDIT BANK & ASSOCIATIONS

AgFirst is a member of the Farm Credit System, the largest agricultural lending organization in the United States. As one of the four Banks in the Farm Credit System, we provide wholesale funding, as well as technology and other value-added services, to Association partners in 15 states and Puerto Rico. Our Associations, in turn, provide financing to more than 90,000 farmers, ranchers, rural homeowners and agribusinesses.



BOARD OF DIRECTORS



WILLIAM T. ROBINSON
AGSOUTH FARM CREDIT

JENNY R. BLACK
FARM CREDIT OF CENTRAL FLORIDA

GARY L. BALDOSSER
AGCREDIT

JACK W. BENTLEY JR.
AGGEORGIA FARM CREDIT

SHERRY E. BOWDEN
OUTSIDE DIRECTOR

WILLIAM K. JACKSON
HORIZON FARM CREDIT

DWAIN K. LANIER
OUTSIDE DIRECTOR

FRED R. MOORE JR.
HORIZON FARM CREDIT

MICHAEL W. PATRICK
FIRST SOUTH FARM CREDIT

JOHN WHITWORTH "WHIT" PLAYER
ARBORONE FARM CREDIT

DAVID L. RICHESIN
RIVER VALLEY AGCREDIT

ALFRED W. "AL" STEPHENS
FARM CREDIT OF THE VIRGINIAS

MICHAEL T. "BO" STONE
AGCAROLINA FARM CREDIT*

ELLIS W. TAYLOR
AGCAROLINA FARM CREDIT

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FINANCIAL STATEMENTS

AgFirst Farm Credit Bank

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Management

Leon T. Amerson	President and Chief Executive Officer
William E. Brown	Executive Vice President and Chief Credit Officer
James A. Bumgarner	Executive Vice President and Chief Administrative Officer
Stephen Gilbert	Executive Vice President and Chief Financial Officer
Frances S. Griggs	Executive Vice President and General Counsel
Daniel E. LaFreniere	Executive Vice President and Chief Audit Executive
Darrick T. Paul	Executive Vice President and Chief Human Resources Officer
Juan Silvera	Executive Vice President and Chief Marketing Officer
Irvinder Singh	Executive Vice President and Chief Information Officer
Chad E. Toney	Executive Vice President and Chief Information Security Officer

Board of Directors

William T. Robinson	Chair
Jenny R. Black	Vice Chair
Gary L. Baldosser	Director
Jack W. Bentley, Jr.	Director
Sherry E. Bowden	Director
William K. Jackson	Director
Dwain K. Lanier	Director
Fred R. Moore, Jr.	Director
Michael W. Patrick	Director
John Whitworth Player	Director
David L. Richesin	Director
Alfred W. Stephens, Jr..	Director
Michael T. Stone	Director
Ellis W. Taylor	Director

Report of Management

The financial statements of AgFirst Farm Credit Bank (AgFirst) are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as appropriate in the circumstances. Other financial information included in the Annual Report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, AgFirst's internal audit staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as deemed appropriate. The financial statements have been audited by PricewaterhouseCoopers LLP, independent auditors. In addition, our independent auditors have audited our internal control over financial reporting as of December 31, 2023, 2022, and 2021. AgFirst is also examined by the Farm Credit Administration (FCA).

In the opinion of management, the financial statements are true and correct and fairly state the financial position of AgFirst at December 31, 2023, 2022, and 2021. The independent auditors have direct access to the Audit Committee, which is composed solely of directors who are not officers or employees of the bank.

The undersigned certify that this Annual Report to Shareholders has been reviewed by the undersigned and has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of their knowledge.

William T. Robinson
Chairman of the Board

Leon T. Amerson
President and Chief Executive Officer

Stephen Gilbert
Executive Vice President and Chief Financial Officer

March 7, 2024

Five-Year Summary of Selected Financial Data

	As of or for the Year Ended December 31,				
(dollars in thousands)	**2023**	**2022**	**2021**	**2020**	**2019**
Balance Sheet Data					
Cash and cash equivalents	$ 1,490,814	$ 1,096,392	$ 1,025,288	$ 1,213,685	$ 1,094,559
Investments in debt securities	8,650,637	9,075,808	9,336,705	8,515,428	7,932,835
Loans	34,326,724	31,468,732	28,535,682	26,224,989	25,111,659
Allowance for loan losses	(39,420)	(26,070)	(20,147)	(18,257)	(18,032)
Net loans	34,287,304	31,442,662	28,515,535	26,206,732	25,093,627
Other property owned	260	—	—	—	3,041
Other assets	556,807	457,858	397,026	402,361	381,027
Total assets	$ 44,985,822	$ 42,072,720	$ 39,274,554	$ 36,338,206	$ 34,505,089
Obligations with maturities of one year or less	$ 14,571,942	$ 14,640,086	$ 13,856,634	$ 15,927,888	$ 12,512,029
Obligations with maturities of greater than one year	28,731,132	25,981,015	23,115,140	17,932,454	19,662,242
Total liabilities	43,303,074	40,621,101	36,971,774	33,860,342	32,174,271
Perpetual preferred stock	—	—	32,500	49,250	49,250
Capital stock and participation certificates	561,527	300,539	299,131	311,859	325,278
Additional paid-in-capital	63,668	63,668	63,673	58,883	58,883
Retained earnings					
Allocated	413	123,413	416	416	418
Unallocated	1,950,133	1,957,897	1,888,462	1,871,594	1,848,506
Accumulated other comprehensive income (loss)	(892,993)	(993,898)	18,598	185,862	48,483
Total shareholders' equity	1,682,748	1,451,619	2,302,780	2,477,864	2,330,818
Total liabilities and shareholders' equity	$ 44,985,822	$ 42,072,720	$ 39,274,554	$ 36,338,206	$ 34,505,089
Statement of Income Data					
Net interest income	$ 491,326	$ 605,535	$ 648,398	$ 581,347	$ 407,662
Provision for (reversal of) allowance for credit losses	15,953	7,704	3,552	(6,220)	(935)
Noninterest expense, net	(210,053)	(185,871)	(158,840)	(169,889)	(136,916)
Net income	$ 265,320	$ 411,960	$ 486,006	$ 417,678	$ 271,681
Key Financial Ratios					
Rate of return on average:					
Total assets	0.62 %	1.02 %	1.31 %	1.17 %	0.81 %
Total shareholders' equity	16.67 %	21.32 %	18.33 %	15.90 %	11.14 %
Net interest income as a percentage of average earning assets	1.16 %	1.53 %	1.78 %	1.67 %	1.23 %
Operating expense as a percentage of net interest income and noninterest income	47.61 %	35.36 %	28.22 %	27.91 %	34.36 %
Net (chargeoffs) recoveries to average loans	(0.05)%	(0.01)%	(0.01)%	0.03 %	0.00 %
Total shareholders' equity to total assets	3.74 %	3.45 %	5.86 %	6.82 %	6.75 %
Debt to shareholders' equity (:1)	25.73	27.98	16.06	13.67	13.80
Allowance for loan losses to loans	0.11 %	0.08 %	0.07 %	0.07 %	0.07 %
Permanent capital ratio	15.41 %	15.34 %	18.73 %	19.39 %	19.32 %
Common equity tier 1 capital ratio	15.37 %	15.32 %	18.47 %	18.99 %	18.90 %
Tier 1 capital ratio	15.37 %	15.32 %	18.70 %	19.36 %	19.29 %
Total regulatory capital ratio	15.66 %	15.46 %	18.85 %	19.51 %	19.45 %
Tier 1 leverage ratio*	6.08 %	6.09 %	6.87 %	7.09 %	7.10 %
Unallocated retained earnings (URE) and URE equivalents	4.64 %	5.37 %	6.09 %	6.18 %	6.17 %
Net Income Distribution					
Cash patronage declared	$ 251,198	$ 212,874	$ 463,555	$ 390,382	$ 266,942
Distribution of nonqualified allocated retained earnings	—	123,000	—	—	—
Perpetual preferred stock dividend	—	271	521	963	1,798
Stock patronage declared	5,668	4,519	3,991	3,468	3,112

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

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

AgFirst Farm Credit Bank (the Bank or AgFirst) is one of the banks of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions and related service organizations. System institutions are generally organized as cooperatives. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses. Consistent with the mission of supporting rural America, the System also makes rural residential real estate loans, finances rural communication, power and water infrastructures and makes loans to support agricultural exports and to finance other eligible entities.

The nation is currently served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), each of which has specific lending authorities within its chartered territory. The ACB also has certain additional specific nationwide lending authorities. AgFirst is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of the states of Ohio, Tennessee, Kentucky and Louisiana.

Each FCB and the ACB serves one or more of either Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that originate and service both long-term real estate mortgage loans and short- and intermediate-term loans. PCAs, FLCAs and ACAs are collectively referred to as associations. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District (District). The Associations are structured as cooperatives in which each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations, certain Other Financing Institutions (OFIs), and other System institutions jointly own AgFirst. As of December 31, 2023, the District consisted of the Bank and sixteen District Associations. See Note 1, *Organization and Operations*, in the Notes to the Financial Statements for discussion of two mergers that took place in 2023. All sixteen Associations were structured as ACA holding companies, with FLCA and PCA subsidiaries. The Bank and District Associations are regulated by the Farm Credit Administration (FCA).

The following commentary reviews the Financial Statements of condition and results of operations of AgFirst as of and for the years ended December 31, 2023, 2022, and 2021. This information should be read in conjunction with the accompanying Financial Statements, the Notes to the Financial Statements and other sections of this Annual Report. The Financial Statements were prepared under the oversight of the Audit Committee of the Bank's Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" included in this Annual Report. See Note 1, *Organization and Operations*, in the Notes to the Financial Statements for a discussion of the operations of AgFirst.

FORWARD-LOOKING INFORMATION

Certain sections of this Annual Report contain forward-looking statements concerning financial information and statements about future economic performance and events, plans and objectives. These projections and statements are not based on historical facts but instead represent the Bank's current assumptions and expectations regarding the Bank's business, the economy and other future conditions. However, actual results and developments may differ materially from the Bank's expectations and predictions due to a number of risks and uncertainties, many of which are beyond the Bank's control.

These risks and uncertainties include, but are not limited to:

- political (including trade policies), legal, regulatory, financial markets, and economic conditions and developments in the United States (U.S.) and abroad including wars and regional conflicts, the elevated level of inflation, supply chain disruptions, and potential changes to global trade patterns and agreements;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy, that can affect the availability of off-farm sources of income;
- weather-related events, food safety, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- climate change and/or measures to address climate change
- volatile prices of agricultural commodities;
- changes in production expenses, particularly feed, fuel, and fertilizer;
- changes in supply or demand of U.S. agricultural products in a global marketplace;
- changes in farmland and rural real estate values;
- availability of agricultural workers and changes in labor costs;
- disruption of operations or disclosure of confidential information as a result of cybersecurity incidents, including incidents at critical vendors;
- a failure or circumvention of controls and procedures;
- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise (GSE), as well as investor and rating agency reactions to events involving the U.S. government, other GSEs and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary and fiscal policy, as well as other policies and actions of the federal government that impact the financial services industry and the debt markets;
- credit, interest rate, prepayment, and liquidity risk inherent in lending activities; and,
- the Bank's assumptions for determining the allowance for credit losses and fair value measurements.

Forward-looking statements can be identified by words such as “anticipates,” “believes,” “could,” “estimates,” “may,” “should,” “will,” or other variations of these terms that are intended to reference future periods.

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 AgFirst’s business or events that occur subsequent to its issuance. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data in the AgFirst District.

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

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

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

The Bank's financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Consideration of AgFirst's significant accounting policies is critical to the understanding of the Bank's results of operations and financial position because some accounting policies require complex or subjective judgments and estimates that may affect the reported amount of certain assets or liabilities as well as the recognition of certain income and expense items. In many instances, management has to make judgments about matters that are inherently uncertain. For a complete discussion of the Bank's significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Financial Statements. The following is a summary of the Bank's most significant critical accounting policies:

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

  The ACL comprises:

  - the allowance for loan losses which covers the Bank's loan portfolio and is presented separately on the *Balance Sheets*,
  - the ACL on unfunded commitments, which is presented on the *Balance Sheets* in other liabilities, and
  - the ACL on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the *Balance Sheets.*

  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 Bank's policies and methodologies for determining the ACL. Changes in any of the above factors considered by management in the evaluation of losses in its loan portfolio, unfunded commitments and investment securities could result in a change in the ACL and have a direct impact on its provision for 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 Bank's 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, pension obligations, certain derivatives, 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 Bank's results of operations.

RESULTS OF OPERATIONS

Net Income

AgFirst net income totaled $265.3 million for the year ended December 31, 2023, a decrease of $146.6 million from 2022. Net income of $412.0 million for the year ended December 31, 2022 was a decrease of $74.0 million from 2021. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

Change in Net Income	**Year Ended December 31,**	
(dollars in thousands)	**2023**	**2022**
Net income (for prior year)	$ 411,960	$ 486,006
Increase (decrease) due to:		
Total interest income	635,246	296,634
Total interest expense	(749,455)	(339,497)
Net interest income	(114,209)	(42,863)
Provision for credit losses	(8,249)	(4,152)
Noninterest income	2,116	10,029
Noninterest expense	(26,298)	(37,060)
Total decrease in net income	(146,640)	(74,046)
Net income	$ 265,320	$ 411,960

Net Interest Income

Net interest income for the year ended December 31, 2023 was $491.3 million compared to $605.5 million for the same period of 2022, a decrease of $114.2 million or 18.86 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.16 percent and 1.53 percent in the current year and previous year, respectively, a decrease of 37 basis points.

AgFirst Analysis of Net Interest Income

	Year Ended December 31,								
(dollars in thousands)	2023			2022			2021		
	Avg. Balance	Interest	Avg. Yield	Avg. Balance	Interest	Avg. Yield	Avg. Balance	Interest	Avg. Yield
Loans	$ 32,766,825	$ 1,417,476	4.33 %	$ 29,898,482	$ 919,416	3.08 %	$ 26,936,802	$ 696,450	2.59 %
Investments	9,245,386	323,244	3.50	9,527,200	199,809	2.10	9,287,243	131,067	1.41
Other*	384,263	18,767	4.88	232,586	5,016	2.16	113,467	90	0.08
Total earning assets	42,396,474	1,759,487	4.15	39,658,268	1,124,241	2.83	36,337,512	827,607	2.28
Interest-bearing liabilities	41,170,608	(1,268,161)	3.08	38,267,428	(518,706)	1.36	34,279,349	(179,209)	0.52
Spread			1.07			1.47			1.76
Impact of capital	$ 1,225,866		0.09	$ 1,390,840		0.06	$ 2,058,163		0.02
Net Interest Income (NII) & NII to average earning assets		$ 491,326	1.16 %		$ 605,535	1.53 %		$ 648,398	1.78 %

**Other includes interest-bearing cash and loans held for sale.*

The following table illustrates the impact of rate and volume changes on net interest income:

	For the Year Ended December 31, 2023 vs. December 31, 2022			For the Year Ended December 31, 2022 vs. December 31, 2021		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
(dollars in thousands)	Rate	Volume	Total	Rate	Volume	Total
Interest Income:						
Loans	$ 417,798	$ 80,262	$ 498,060	$ 150,814	$ 72,152	$ 222,966
Investments	129,345	(5,910)	123,435	65,356	3,386	68,742
Other	10,480	3,271	13,751	4,832	94	4,926
Total Interest Income	$ 557,623	$ 77,623	$ 635,246	$ 221,002	$ 75,632	$ 296,634
Interest Expense:						
Interest-Bearing Liabilities	$ 710,103	$ 39,352	$ 749,455	$ 318,648	$ 20,849	$ 339,497
Changes in Net Interest Income	$ (152,480)	$ 38,271	$ (114,209)	$ (97,646)	$ 54,783	$ (42,863)

As illustrated in the preceding tables, the decline in net interest income and net interest margin for both periods is primarily the result of rates paid on interest-bearing liabilities increasing significantly more than rates on interest-earning assets, partially offset by higher volumes of interest-earning assets.

A significant volume of the Bank's assets have long-term, fixed-rate, prepayable payment structures. To mitigate interest rate risk exposure, the Bank funds such assets predominately with fixed-rate, callable debt having maturities similar to the assets funded. When interest rates fall, as they did during 2020, the Bank calls and replaces any debt securities that result in cost savings. This temporarily increases net interest margin and returns to a normal level over time.

Effective January 1, 2024, the Bank amended the contractual interest rates charged to Associations. This change was made on a prospective basis and will reduce the interest earned on Direct Notes by 34 basis points, thus reducing net interest margin in the future. Effective with this change, Associations will be charged a fee for certain expenses incurred by the Bank in providing technology and support services to Associations. Such fees will generally offset the reduction in Direct Note interest and will be reported in the noninterest income section in the *Statements of Comprehensive Income*.

Provision for Credit Losses

AgFirst measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for credit losses so that appropriate reserves are maintained. Provision for credit losses, which includes the provision for loan loss and, beginning in 2023, the provision for unfunded commitments, was a net expense of $16.0 million, $7.7 million and $3.6 million for the years ended December 31, 2023, 2022, and 2021, respectively.

For the year ended December 31, 2023, the provision for loan loss included $17.1 million of net provision expense for specific reserves related to a few isolated borrowers within the Capital Markets portfolio, and $174 thousand of net provision reversal for general reserves. The provision for unfunded commitments was a net provision reversal of $951 thousand as a result of activity within the Capital Markets portfolio. The net provision expense for 2023 is primarily related to provision expense for borrowers in the tree fruits and nuts ($14.9 million) segment.

The $7.7 million in net provision expense for the year ended December 31, 2022 consisted of $3.5 million of net provision expense for specific reserves and $4.3 million of net provision expense for general reserves. The net provision expense for 2022 primarily resulted from expenses in the field crops ($3.0 million) and rural home loan ($1.9 million) segments.

The $3.6 million in net provision expense for the year ended December 31, 2021 consisted of $3.5 million of net provision expense for specific reserves and $32 thousand of net provision expense for general reserves. The net provision expense for 2021 primarily resulted from expenses in the utilities ($2.0 million) segment.

See *Allowance for Credit Losses* in the *Risk Management* section below and Note 3, *Loans and Allowance for Credit Losses*, in the Notes to the Financial Statements for further information.

Noninterest Income

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

Noninterest Income	**For the Year Ended December 31,**			**Increase/(Decrease)**	
(dollars in thousands)	**2023**	**2022**	**2021**	**2023/ 2022**	**2022/ 2021**
Loan fees	$ 13,596	$ 14,034	$ 12,508	$ (438)	$ 1,526
Gains on investments, net	—	—	330	—	(330)
(Losses) gains on debt extinguishment	(6,515)	56	(9,204)	(6,571)	9,260
(Losses) gains on other transactions	(706)	(1,553)	2,745	847	(4,298)
Patronage refunds from other Farm Credit institutions	31,303	20,595	18,597	10,708	1,998
Other noninterest income	8,147	10,577	8,704	(2,430)	1,873
Total noninterest income	$ 45,825	$ 43,709	$ 33,680	$ 2,116	$ 10,029

Total noninterest income increased $2.1 million from 2022 to 2023 and increased $10.0 million from 2021 to 2022. Line item dollar variances greater than $2.0 million or unusual in nature are discussed below.

Losses on debt extinguishment increased $6.6 million for the year ended December 31, 2023 compared to a decrease of $9.3 million for the year ended December 31, 2022. Debt issuance costs are amortized into interest expense over the contractual life of the underlying debt security. Debt is called to take advantage of favorable market interest rate changes. When debt securities are called prior to maturity, any unamortized issuance cost is expensed through losses on debt extinguishment. The amount of issuance cost expensed is dependent upon both the size and remaining maturity of the bond when called. Losses on called debt are more than offset by interest expense savings realized over the life of the replacement debt. Call options were exercised on bonds totaling $3.0 billion for the year ended December 31, 2023 compared to none in 2022 and $7.3 billion for the year ended December 31, 2021. Despite not exercising any call options on bonds during 2022, the Bank repurchased and subsequently cancelled one discount note that resulted in $56 thousand in gains during 2022. See *Net Interest Income* section above for further discussion.

For the year ended December 31, 2022, net gains on other transactions decreased $4.3 million. The decrease was primarily due to the decrease in the market value of certain nonqualified retirement plan trust assets of $4.4 million as a result of an increase in interest rates.

For the years ended December 31, 2023, and 2022, patronage refunds from other Farm Credit institutions increased by $10.7 million and $2.0 million, respectively. The increase in 2023 and 2022 was primarily due to increases in patronage income received from entities outside of the District related to the volume increase in the Capital Markets portfolio. Patronage from other Farm Credit institutions, including Associations, reflects distributions of earnings on loans sold by AgFirst to those institutions.

For the year ended December 31, 2023, other noninterest income decreased by $2.4 million when compared to the prior year. This decrease is primarily due to higher income received in 2022 as a result of system conversion services provided to merging Associations.

Noninterest Expenses

Noninterest expenses for each of the three years ended December 31 are shown in the following table:

Noninterest Expenses	For the Year Ended December 31,			Increase/(Decrease)	
				2023/	2022/
(dollars in thousands)	2023	2022	2021	2022	2021
Salaries and employee benefits	$ 88,347	$ 79,211	$ 76,604	$ 9,136	2,607
Occupancy and equipment	7,302	7,302	7,080	—	222
Insurance Fund premiums	27,407	26,979	17,927	428	9,052
Purchased services	61,020	57,487	43,231	3,533	14,256
Data processing	45,576	32,520	25,965	13,056	6,555
Other operating expenses	26,059	26,082	21,678	(23)	4,404
Losses (gains) from other property owned	167	(1)	35	168	(36)
Total noninterest expenses	$ 255,878	$ 229,580	$ 192,520	$ 26,298	$ 37,060

Total noninterest expenses increased $26.3 million and $37.1 million in 2023 and 2022, respectively. Line item dollar variances greater than $2.0 million or unusual in nature are discussed below.

Salaries and employee benefits expenses increased $9.1 million and $2.6 million for the years ended December 31, 2023 and 2022, respectively. For both periods, the increases resulted primarily from $6.7 million and $4.6 million, respectively, in higher salaries and incentives mainly due to normal salary administration and an increase in headcount to support increased business activity and technology systems support as the Bank undergoes a major technology upgrade. For 2023, the remainder of the increase was primarily due to an increase in group health insurance expenses of $1.6 million in response to higher claims experience. For 2022, the increase was partially offset by a decrease in postretirement benefit expenses of $2.9 million due primarily to lower pension service cost.

Insurance Fund premiums increased $9.1 million for the year ended December 31, 2022 compared to the prior year. The increase resulted primarily from an increase in the base annual premium rate to 20 basis points in 2022 from 16 basis points in 2021. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount which is based upon insured debt outstanding at System banks. The premium rate decreased to 18 basis points for 2023, the impact of which was offset by an increase in debt outstanding (which in turn was driven by asset growth). The Insurance Fund premium rate will be 10 basis points for at least the first half of 2024.

As a result of significant technology initiatives, data processing and purchased services expenses increased $13.1 million and $3.5 million, respectively, for the year ended December 31, 2023 and $6.6 million and $14.3 million, respectively, for the year ended December 31, 2022 when compared to the corresponding periods. The data processing increases resulted primarily from higher software and hardware depreciation and maintenance costs as a result of new systems purchased as part of the technology modernization initiatives. The purchased services increases resulted from contractors and consultants utilized in the development and implementation of new systems including a new mortgage loan origination system and a new loan accounting system implemented during the 2023. The Bank operates as the centralized service provider for the District Associations which results in costs incurred at the Bank that are expected to be offset through efficiencies gained at District Associations.

The increase of $4.4 million in other operating expenses in 2022 was primarily due to higher travel and public and member relation expenses of $1.4 million and $1.3 million, respectively, when compared to the prior year when pandemic restrictions were in place.

LOAN PORTFOLIO

The Bank's loan portfolio consists primarily of direct loans to District Associations (Direct Notes), Capital Markets loans (loan participations/syndications purchased, net of sold), Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to Other Financing Institutions (OFIs) as shown below at December 31:

AgFirst Loan Portfolio						
(dollars in thousands)	2023		2022		2021	
Direct Notes*	$ 23,151,310	67.44 %	$ 21,217,281	67.42 %	$ 19,739,633	69.18 %
Capital Markets*	7,729,125	22.52	6,927,516	22.01	5,724,229	20.06
Correspondent Lending	3,278,327	9.55	3,157,675	10.04	2,912,759	10.20
Loans to OFIs	167,962	0.49	166,260	0.53	159,061	0.56
Total	$ 34,326,724	100.00 %	$ 31,468,732	100.00 %	$ 28,535,682	100.00 %

**Capital Markets and Direct Notes are presented net of participations sold*

The diversification of the Bank's loan volume by type for each of the past three years at December 31 is shown below:

(dollars in thousands)	2023		2022		2021	
Direct Notes	$ 23,151,310	67.44 %	$ 21,217,281	67.42 %	$ 19,739,633	69.18 %
Rural residential real estate	3,172,405	9.24	3,044,026	9.67	2,784,761	9.76
Agribusiness	2,659,578	7.75	2,634,597	8.37	2,287,788	8.02
Rural infrastructure	2,524,862	7.36	1,888,597	6.00	1,294,262	4.53
Production and intermediate-term	1,389,873	4.05	1,245,308	3.96	1,032,288	3.62
Real estate mortgage	1,149,186	3.35	1,163,090	3.70	1,153,729	4.04
Other	279,510	0.81	275,833	0.88	243,221	0.85
Total loans	$ 34,326,724	100.00 %	$ 31,468,732	100.00 %	$ 28,535,682	100.00 %

Total loans outstanding were $34.3 billion at December 31, 2023. Compared to 2022, total loans outstanding increased $2.9 billion, or 9.08 percent. Loans outstanding at the end of 2022 increased $2.9 billion, or 10.28 percent, compared to December 31, 2021.

As noted in the table above, a significant portion of the Bank's loan portfolio is comprised of Direct Notes to District Associations. Since Direct Notes fund District Associations' lending activities, increases and decreases in the Direct Note portfolio are closely linked to the commodities and geographic distribution of the District Associations' loan portfolios.

In 2023, loan growth for the combined District portfolio was primarily in the processing, utilities, and forestry segments. In 2022, loan growth was primarily in the utilities, processing, forestry, rural home loans, and grains segments. See *Direct Notes*, *Capital Markets* and *Correspondent Lending* sections below for further discussion of loan growth.

Each loan in the Bank's portfolio is classified according to a Uniform Classification System, which is used by all System institutions. Below are the classification definitions:

- *Acceptable* – Assets are expected to be fully collectible and represent the highest quality. In addition, these assets may include loans with properly executed and structured guarantees that might otherwise be classified less favorably.
- *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 AgFirst loans at December 31:

AgFirst Total Loans Credit Quality	**2023**	**2022***	**2021***
Acceptable	99.30 %	99.52 %	99.45 %
OAEM	0.24	0.18 %	0.34 %
Substandard/doubtful/loss	0.46	0.30 %	0.21 %
Total	100.00 %	100.00 %	100.00 %

** Periods prior to the adoption of CECL on January 1, 2023 are calculated using recorded investment, which includes accrued interest. Accrued interest is excluded from the calculation in the current period. This change does not have a significant impact on the comparability of the figures presented.*

The table above reflects a decline in credit quality during 2023, primarily as a result of the classification of a single Direct Note as Substandard (see further discussion in *Direct Notes* section below). The collection on the full Direct Note amount is expected. Excluding the change in Direct Note, Bank credit quality declined slightly when compared to the prior periods presented, primarily as the result of several relationships in the Capital Markets portfolio being downgraded during 2023. Bank credit quality may be impacted in 2024 in response to potential changes in government support for agricultural sectors, inflationary input cost pressures, rising interest rates, and unforeseen impacts from geopolitical, trade, supply chain, weather, or animal- or human-related health events. See the *Direct Notes, Capital Markets, and Correspondent Lending* sections below for further discussion of the Bank's loan portfolio and credit quality.

Direct Notes

AgFirst's primary business is to provide funding, operational support, and technology services to District Associations. AgFirst provides a revolving line of credit, referred to as a Direct Note, to each of the District Associations. Each of the Associations funds its lending and general corporate activities primarily by borrowing under its Direct Note. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association. Each GFA contains minimum borrowing base margin, capital, and earnings requirements that must be maintained by the Association. Refer to Note 1, *Organization and Operations*, in the Notes to the Financial Statements for further discussion.

Following approval by AgFirst, the FCA, and shareholders, effective January 1, 2023, Cape Fear Farm Credit, ACA merged with and into AgCarolina Farm Credit, ACA. Combined total assets for the merged Association were $2.7 billion as of December 31, 2023.

Following approval by AgFirst, the FCA, and shareholders, effective April 1, 2023, Carolina Farm Credit, ACA merged with and into AgSouth Farm Credit, ACA. Combined total assets for the merged entity were $4.3 billion as of December 31, 2023.

The merger activities listed above have not and are not expected to have a material impact on the Bank's Balance Sheet and Results of Operations.

At December 31, 2023, total Direct Note volume outstanding was $23.2 billion, an increase of $1.9 billion, or 9.12 percent, compared to December 31, 2022. Direct Note volume of $21.2 billion at December 31, 2022, increased $1.5 billion, or 7.49 percent, compared to December 31, 2021. The Bank may sell participation interests in certain of its Direct Notes to other System banks. At December 31, 2023, 2022, and 2021, Direct Note volume totaling $1.5 billion, $1.3 billion, and $1.2 billion, respectively, had been sold to another System bank.

As noted above, increases and decreases in the Direct Note portfolio are closely linked to the commodities and geographic distribution of the District Associations' loan portfolios. In 2023 and 2022, loan growth was primarily in the forestry and processing segments. For both years, the growth within the forestry commodity was driven by continued strong demand in end-use markets, large timberland investment markets, and retail consumer demand for land. The growth within the processing segment was attributable to higher input costs, capital expenditures, and liquidity needs.

AgFirst provides each Association with core operating systems and support, including a loan origination system, loan accounting and servicing systems, general ledger and related financial accounting systems, and a human resources/payroll system. With AgFirst providing such systems and other services, the Associations are able to achieve operating efficiencies ordinarily afforded to much larger organizations. In addition, having common systems supported by AgFirst provides an opportunity to automate and standardize portions of the AgFirst/Association lending process. One of the most significant advantages of this is a match-funding mechanism that automatically creates Direct Note advances that match the repricing and maturity characteristics of each underlying Association loan. The Associations' interest rate risk and systems operational risks are primarily transferred to the Bank by employing these systems.

Ultimately, the Associations' ability to repay their Direct Note obligations is significantly dependent upon the repayment of loans made to their borrowers. Accordingly, AgFirst's direct and indirect credit exposure depends upon the creditworthiness of both the Associations that are direct borrowers and the underlying borrowers of the Associations whose loans, as well as the other assets of the Associations, secure their Direct Notes.

AgFirst continually monitors the risk-bearing capacity of each Association through a variety of mechanisms, including testing of the reliability of the Association's risk ratings assigned to each of its loans, periodic meetings with the Association's management and board of directors, regular formalized risk assessments, and prior approval of loan transactions that exceed the Association's delegated lending authority as determined by AgFirst.

All Associations are subject to an annual audit by an independent registered public accounting firm and periodic examination by the FCA. Each Association is required by regulatory mandate to perform continuous internal credit, appraisal, and audit reviews. The GFA has provisions to ensure Associations adhere to safe and sound business practices, generally accepted accounting principles, internal controls over financial reporting (ICFR), and regulatory and Bank-administered requirements.

Litigation in which Associations are involved is typically loan related and currently poses no material threat to their viability.

All Associations met all of the regulatory minimum capital requirements, and were considered well-capitalized at December 31, 2023. See *Regulatory Ratios* in the *Capital* section below for a discussion of the calculation of these ratios.

The following table presents the credit quality of the Bank's Direct Note portfolio at December 31:

Direct Note Credit Quality

	2023		2022*		2021*	
	% Total	# Total**	% Total	# Total**	% Total	# Total
Acceptable	99.49%	15	100.00%	18	100.00%	19
OAEM	—	0	—	—	—	—
Substandard/doubtful/loss	0.51	1	—	—	—	—
Total	100.00%	16	100.00%	18	100.00%	19

**Periods prior to the adoption of CECL on January 1, 2023 are calculated using recorded investment, which includes accrued interest. Accrued interest is excluded from the calculation in the current period. This change does not have a significant impact on the comparability of the figures presented.*
***Decrease in the number of Associations is a result of mergers. See further discussion above and in Note 1 to the Financial Statements.*

One District Association (0.51 percent of the total Direct Note) is operating under special credit agreement with the Bank pursuant to the GFA. This Association's Direct Note was downgraded to Substandard during 2023. The remaining Direct Notes were classified as Acceptable and operating in compliance with all financial covenants of the GFA for all periods presented.

Presently, collection of the full Direct Note amount due is expected from all Associations, including the Association classified as Substandard, in accordance with the contractual terms of the debt arrangements, and no allowance has been recorded for Direct Notes. Virtually all assets of the various Associations are pledged as collateral for their respective Direct Notes. In the opinion of management, all Association Direct Notes are adequately collateralized. The risk funds of an Association, including both capital and the allowance for credit losses, also protect the interest of the Bank should a Direct Note default.

Associations employ a number of risk management techniques to limit credit exposures. Each Association has adopted underwriting standards, individual borrower exposure limits, commodity exposure limits, and other risk management techniques. AgFirst and the Associations actively purchase and sell loan participations to enhance the diversification of their portfolios. Some Associations utilize guarantees from U.S. government agencies/departments, including the Farm Service Agency, the Small Business Administration, and the Federal Agricultural Mortgage Corporation (Farmer Mac), as well as state government guarantees to further limit credit exposures. At December 31, 2023, Associations collectively had $2.1 billion (6.99 percent of the total Associations' loan portfolios) under such government or GSE guarantees, compared to $2.0 billion (7.25 percent) and $2.0 billion (7.48 percent), at December 31, 2022 and 2021, respectively.

The following table presents the credit quality classification of the combined Associations' loans at December 31:

Combined Associations Credit Quality	2023	2022*	2021*
Acceptable	97.14 %	97.00 %	95.94 %
OAEM	1.63	1.68	2.22
Substandard/doubtful/loss	1.23	1.32	1.84
Total	100.00 %	100.00 %	100.00 %

**Periods prior to the adoption of CECL on January 1, 2023 are calculated using recorded investment, which includes accrued interest. Accrued interest is excluded from the calculation in the current period. This change does not have a significant impact on the comparability of the figures presented.*

Total Association loan delinquencies (loans 90 days or more past due) were 0.24 percent of the combined Association total loan assets at year-end 2023, compared to 0.25 percent and 0.27 percent at December 31, 2022 and 2021, respectively.

At December 31, 2023, nonperforming assets for the combined Associations represented 0.48 percent of total loans and other property owned, or $142.2 million, compared to $251.7 million (0.90 percent) and $278.5 million (1.07 percent), for 2022 and 2021, respectively. Nonperforming assets consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned. Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans of $43.4 million and $25.1 million for 2022 and 2021, respectively.

Affiliated Associations serve primarily all or a portion of fifteen states and Puerto Rico. The District's large footprint results in geographic diversity, which is a natural credit risk-reducing factor for AgFirst. The following table illustrates the geographic distribution of the Associations' loan volume outstanding by state for the past three years at December 31:

District Associations

	Percent of Portfolio [1]		
State	2023	2022	2021
North Carolina	14 %	15 %	16 %
Pennsylvania	11	11	11
Georgia	11	11	11
Ohio	9	9	9
Florida	8	9	8
Virginia	8	9	9
South Carolina	6	5	6
Maryland	5	6	6
Alabama	5	6	6
Kentucky	3	3	4
Mississippi	3	2	3
Louisiana	2	2	2
Delaware	2	2	2
All Other states and Puerto Rico	13	10	7
Total	100 %	100 %	100 %

(1) The distribution is based on the state in which the borrower is headquartered and may not be representative of their operations and business activities.

Only three states have loan volume representing 10.00 percent or greater of the total at December 31, 2023. Commodity diversification, guarantees, and borrowers with significant reliance on non-farm income further mitigate the geographic concentration risk in these states.

The Associations' credit portfolios are comprised of a number of commodity segments having varying, and in some cases complementary, characteristics which helps mitigate credit risk. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government.

The following table illustrates the aggregate credit portfolio of the Associations by major commodity segments based on borrower eligibility at December 31:

District Associations

	Percent of Portfolio		
Commodity Group - Eligibility	**2023**	**2022**	**2021**
Forestry	16 %	16 %	16 %
Field Crops	12	12	12
Poultry	12	12	13
Cattle	8	9	9
Grains	8	8	8
Corn	6	6	6
Other Real Estate	5	5	5
Processing	4	3	2
Dairy	4	4	5
Tree Fruits and Nuts	3	3	3
Nursery/Greenhouse	3	3	3
Rural Home Loans	3	3	3
Cotton	2	3	3
Utilities	2	2	1
Swine	2	2	2
Other	10	9	9
Total	100 %	100 %	100 %

As illustrated in the above chart, Associations had concentrations of 10.00 percent or greater in only three commodities: forestry, field crops, and poultry. All three commodities have geographic dispersion over the entire AgFirst District footprint. Also, many of these borrowers have significant secondary income from other sources.

Forestry is divided principally into hardwood and softwood production and value-added processing. The timber from hardwood production is further processed into furniture, flooring, and high-grade paper and is generally located at the more northern latitudes and higher elevations of the AgFirst District. Softwood timber production is typically located in the coastal plains of the AgFirst District footprint and is used for building materials for the housing market and pulp to make paper and hygiene products. Timber producers at the Associations range in size from less than fifty acres to thousands of acres, with value-added processing being conducted at sawmills, planer mills, and paper mills.

The field crops commodity group represents a diverse group of commodities, including melons, vegetables, and other non-grain crops, which are grown throughout the AgFirst District.

Poultry concentrations within the Associations are dispersed among a large number of farm units producing poultry. Poultry concentration is further dispersed as production is segregated among chicken, turkey, and egg production.

The diversity of income sources supporting Association loan repayments, including a prevalence of non-farm income among the borrowers, further mitigates credit risk to AgFirst. The following table illustrates the aggregate credit portfolio of the Associations by major segments based upon primary source of repayment as of December 31 of each year:

District Associations

	Percent of Portfolio		
Commodity Group - Repayment Dependency	**2023**	**2022**	**2021**
Non-Farm Income	34 %	35 %	35 %
Poultry	11	12	13
Grains	6	6	6
Field Crops	6	6	6
Forestry	5	5	5
Corn	5	5	5
Processing	4	3	2
Dairy	4	4	4
Cattle	3	3	4
Nursery/Greenhouse	3	3	2
Tree Fruits and Nuts	3	2	3
Other Real Estate	2	2	2
Utilities	2	2	1
Cotton	2	2	3
Swine	2	2	2
Other	8	8	7
Total	100 %	100 %	100 %

As mentioned previously, loans exceeding an Association's delegated lending authority must be pre-approved by AgFirst. As a result, larger agribusiness loans are typically analyzed by AgFirst's commercial lending staff as well as the Association's own lending staff prior to an Association committing to such loans.

Exposure to losses is reduced further through collateralization and other credit enhancements, including federal government guarantees. Typically, multiple loans to the same borrower are cross-collateralized and cross-defaulted.

By law, all long-term loans authorized by Title 1 of the Farm Credit Act of 1971, as amended (the Farm Credit Act), must be secured by a first lien on real estate with an initial loan to appraised value not exceeding 85.00 percent. As of December 31, 2023, long-term loans represent 63.90 percent of District Association loans.

Capital Markets

AgFirst has a Capital Markets unit that purchases and sells loan participations and syndications. The Bank's credit officers work with the Associations to originate loans within the District's territory, provide commercial loan expertise to augment the Associations' staff, as needed, and provide an outlet for loans that exceed Associations' various hold limits. Additionally, the Capital Markets unit actively pursues the purchase of participations and syndications originated outside of the District's territory by other System institutions, commercial banks, and other lenders. These loans may be held as earning assets of AgFirst or sub-participated to the Associations. The unit also sells participations outside of the District to manage AgFirst's and the District Associations' loan concentrations and hold positions.

AgFirst's net Capital Markets volume outstanding increased by 11.57 percent from December 31, 2022 to December 31, 2023 and increased by 21.02 percent from December 31, 2021 to December 31, 2022. The increase in Capital Markets volume in 2023 was primarily due to growth in the utilities (43.44 percent of total Capital Markets growth), and processing (23.51 percent) segments. The increase in both years was primarily due to a combination of factors including new client acquisition, an increase in transactions due to government initiatives to expand rural infrastructure, expansion activities within the protein complex, borrower liquidity needs due to commodity price escalation, and merger and acquisition activity.

The following table shows total Capital Markets portfolio credit exposures at December 31 of each year:

(dollars in thousands)	**2023**	**2022**	**2021**
Capital Markets, Purchased	$ 11,931,945	$ 10,684,682	$ 8,061,843
Less: Capital Markets, Sold	4,202,820	3,757,166	2,337,614
Net Outstanding	7,729,125	6,927,516	5,724,229
Available Unused Commitments	3,880,833	3,861,293	3,643,035
Letters of Credit and Guarantees	79,766	84,297	63,983
Total Exposure	$ 11,689,724	$ 10,873,106	$ 9,431,247

Like the Associations, AgFirst employs a number of management techniques to limit credit risk, including underwriting standards, limits on the amounts of loans purchased from a single originator, and maximum hold positions to a single borrower and commodity. Although the Capital Markets portfolio is comprised of a relatively small number of large loans, it is diversified both geographically and on a commodity basis. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

The following table illustrates AgFirst's Capital Markets portfolio by geographic distribution at December 31:

	Percent of Portfolio*		
	2023	**2022**	**2021**
Georgia	10 %	10 %	12 %
Florida	9	10	7
Texas	9	8	7
North Carolina	5	6	8
California	5	5	5
New York	5	6	5
Ohio	4	4	5
Illinois	4	4	3
Indiana	3	2	2
Minnesota	3	3	3
Washington	2	2	2
Pennsylvania	2	3	4
Louisiana	2	2	3
Colorado	2	2	2
New Jersey	2	1	1
Massachusetts	2	1	1
Connecticut	2	2	2
Kansas	2	2	2
Arkansas	2	1	1
Tennessee	2	1	1
Nebraska	2	2	1
Missouri	2	2	2
South Carolina	2	1	2
Virginia	2	1	1
Other states including Puerto Rico	15	19	18
	100 %	100 %	100 %

**The distribution is based on the state in which the borrower is headquartered and may not be representative of their operations and business activities.*

The following Capital Markets table shows the various major commodity groups in the portfolio based on borrower eligibility and their percentage of the outstanding portfolio volume at December 31:

	Percent of Portfolio		
	2023	**2022**	**2021**
Utilities	25 %	23 %	20 %
Processing	21	21	21
Forestry	16	16	18
Field Crops	5	6	7
Tree Fruits and Nuts	4	5	5
Grains	3	3	3
Cattle	3	3	3
Dairy	3	3	3
Swine	2	3	4
Nursery/Greenhouse	2	3	3
Poultry	2	1	1
Other	14	13	12
Total	100 %	100 %	100 %

The following table segregates these loans based upon repayment dependency by commodity at December 31:

	Percent of Portfolio		
	2023	2022	2021
Utilities	25 %	23 %	19 %
Processing	21	21	21
Forestry	14	14	16
Field Crops	6	7	8
Non-Farm Income	4	5	6
Tree Fruits and Nuts	4	4	4
Dairy	3	3	3
Grains	3	3	3
Cattle	3	2	2
Swine	2	3	3
Nursery/Greenhouse	2	2	2
Poultry	2	2	2
Other	11	11	11
Total	100 %	100 %	100 %

Credit Quality as of December 31 is shown in the following chart:

	2023	2022*	2021*
Acceptable	96.56 %	98.06 %	97.53 %
OAEM	1.78	0.83	1.68
Substandard/doubtful/loss	1.66	1.11	0.79
Total	100.00 %	100.00 %	100.00 %

** Periods prior to the adoption of CECL on January 1, 2023 are calculated using recorded investment, which includes accrued interest. Accrued interest is excluded from the calculation in the current period. This change does not have a significant impact on the comparability of the figures presented.*

The slight deterioration of credit quality in the Capital Markets portfolio during 2023 is primarily as the result of several relationships being downgraded during 2023.

Correspondent Lending

The Correspondent Lending portfolio consists primarily of first lien rural residential mortgages. The volume of this portfolio increased by 3.82 percent from year-end 2022 to 2023 and increased 8.41 percent from year-end 2021 to 2022. The increase in volume in 2023 and 2022 resulted primarily from the funding of purchased construction-to-permanent financing loans, in addition to a reduction in prepayments and payoffs due to the increase in interest rates.

As reflected in the table below, certain loans in the Correspondent Lending portfolio include a long-term standby commitment to purchase (LTSP). The LTSPs from the Federal National Mortgage Association (Fannie Mae) and/or Federal Agricultural Mortgage Corporation (Farmer Mac), give AgFirst the right to deliver delinquent loans to the guarantor at par. The Bank ceased participation in the LTSP program during 2013. The remaining loans are included in the Bank's allowance for credit losses methodology.

Correspondent Lending loans consist of the following at December 31:

(dollars in thousands)	2023		2022		2021	
Rural Home Loans – LTSP	$ 446,643	13.63 %	$ 505,872	16.02 %	$ 594,699	20.42 %
Part-time Farm Loans – LTSP	103,067	3.14	111,179	3.52	125,208	4.30
Non-guaranteed Loans	2,728,617	83.23	2,540,624	80.46	2,192,852	75.28
Total	$ 3,278,327	100.00 %	$ 3,157,675	100.00 %	$ 2,912,759	100.00 %

Rural home loans are underwritten to conform to Fannie Mae underwriting standards. Part-time farm loans conform to Farmer Mac underwriting standards.

Part-time farm loans represent first lien mortgages on homes with property characteristics (such as acreage or agricultural improvements) that may not conform to Fannie Mae standards. These loans are included in the Farmer Mac LTSP.

AgFirst Correspondent Lending retains servicing rights for some sold loans. The total volume serviced but not owned as of December 31, 2023 was $282.9 million. These Correspondent Lending loans are sub-serviced through agreements with third parties.

Credit quality for the Correspondent Lending portfolio has remained relatively stable as shown in the following chart:

Classification	2023	2022*	2021*
Acceptable	99.39 %	99.51 %	99.48 %
Substandard/doubtful/loss	0.61	0.49	0.52
Total	100.00 %	100.00 %	100.00 %

**Periods prior to the adoption of CECL on January 1, 2023 are calculated using recorded investment, which includes accrued interest. Accrued interest is excluded from the calculation in the current period. This change does not have a significant impact on the comparability of the figures presented.*

RISK MANAGEMENT

Overview

The Bank is in the business of making agricultural and other loans that requires accepting certain risks in exchange for compensation for the risks undertaken. Proper management of the risks inherent in AgFirst's business is essential for current and long-term financial performance. Prudent and disciplined risk management includes an enterprise risk management structure to identify emerging risks and evaluate risk implications of decisions and actions taken. The objectives of risk management are to identify and assess risks, and to properly and effectively mitigate, measure, price, monitor, and report risks in the Bank's business activities.

The Bank's Executive Committee is responsible for risk management, including:

- Providing overall leadership, vision, and direction for enterprise risk management;
- Establishing an integrated risk management framework for all aspects of risk across the organization;
- Ensuring development of risk management policies, including the quantification of management's risk appetite through specific risk limits;
- Implementing a set of risk metrics and reports, including key risk exposures, early warning indicators and mitigation strategies;
- Optimizing the Bank's risk portfolio through business activities and risk transfer strategies;
- Improving the Bank's risk management readiness through recruiting and retaining top talent, coordination of communication and training programs, risk-based performance measurement and incentives, and other change management programs;
- Assigning responsibility for development of analytical systems and data management capabilities to support the risk management program; and
- Reporting periodically to the Board of Directors on actions taken to strengthen the Bank's system of internal control and top risks impacting the Bank.

The Executive Committee provides oversight of the Bank's risk management functions through an integrated management committee structure, including, among others, the Bank's Enterprise Risk Management Committee, Asset/Liability Management Committee (ALCO), Loan Committee, Special Assets Management Committee, Internal Control over Financial Reporting (ICFR) Steering Committee, Data Governance Steering Committee, Fraud Risk Management Steering Committee, Information Security and Business Continuity Committee and Senior Leadership Committee.

Stress testing represents a critical component of the Bank's risk management process. Stress testing is primarily an analysis performed under a wide range of economic scenarios, including unlikely but plausible economic scenarios, and is designed to determine whether the Bank has enough capital to withstand the impact of adverse developments. The Bank is required by regulation to perform stress tests with a level of sophistication appropriate to its size and complexity.

Types of risk to which the Bank has exposure include:

- *structural risk* — risk inherent in the business and related to the System's structure, which is comprised of interdependent networks of cooperative lending institutions;
- *credit risk* — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed;
- *interest rate risk* — risk that changes in interest rates may adversely affect the Bank's operating results and financial condition;
- *liquidity risk* — risk arising from the inability to meet obligations when they come due without incurring unacceptable losses, including the ability to access the debt market;
- *operational risk* — risk of loss resulting from inadequate or failed internal processes, systems, or controls; errors by employees; fraud; or external events;
- *reputational risk* — risk of loss resulting from events, real or perceived, that shape the image of the Bank, the System, or any of its entities, including the impact of investors' perceptions about agriculture and rural financing, the reliability of Bank or System financial information, or the actions of any System institution;
- *political risk* — risk of loss of support for the System and agriculture by federal and state governments; and
- *cyber risk* - risk of loss, disruption, or damage to the reputation of the Bank or System due to the failure or unauthorized or erroneous use of its information systems

Structural Risk Management

Structural risk results from the fact that AgFirst, along with its related Associations, is part of the System, which is comprised of banks and associations that are cooperatively owned, directly or indirectly, by their borrowers. Each System institution is responsible for its own risk management, and there are no formal processes or procedures in place to mandate consistent Systemwide risk mitigation actions. Because System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. The Funding Corporation provides for the issuance and marketing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The System banks fund association loans with Systemwide debt. Refer to Note 6, *Debt*, in the Notes to the Financial Statements for further discussion. The banks are jointly and severally liable for the repayment of Systemwide Debt Securities, exposing each bank to the risk of default of the others. Although capital at the association level reduces the banks' credit exposures with respect to their related associations, that capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

In order to mitigate this risk, the System utilizes two integrated contractual agreements executed by and among the banks— the Amended and Restated Contractual Interbank Performance Agreement (CIPA) and the Third Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score is calculated quarterly that measures the financial condition and performance of each district using various ratios that take into account each district's and bank's capital, asset quality, earnings, interest-rate risk, and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each district must achieve and maintain. The CIPA also establishes monetary penalties if the performance standard is not met. These penalties will occur at the same point at which a bank would be required to provide additional monitoring information under the MAA.

The MAA establishes criteria and procedures that provide operational oversight and control over a bank's access to System funding if the creditworthiness of the bank declines below certain agreed-upon levels. The MAA provides for the identification and resolution of individual bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions for each bank's participation in each issuance of Systemwide Debt Securities.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in outstanding loans, leases, letters of credit, unfunded loan commitments, investments and derivative counterparty credit exposures. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of individual obligors. The Bank sets underwriting standards and lending policies consistent with FCA regulations, which provide direction to loan officers and are approved by the Board of Directors.

The credit risk management process begins with an analysis of a potential 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. 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 loan rating structure, incorporating a 14-point scale to identify and track a borrower's probability of default and a separate scale addressing loss given default. Probability of borrower default is the risk of default driven by factors intrinsic to the borrower. The risk of loss upon default is related to the structure of a credit (tenor, terms, and collateral).

The credit risk rating methodology is a key component of the Bank's and District Associations' allowance for credit losses on loans and unfunded commitments evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limits.

The Bank and Associations limit their exposure to both borrower and commodity concentrations through their participation in loans or interests in loans to/from other institutions within the System and outside the System. This also allows the Bank and Associations to manage growth and capital, and to improve geographic diversification. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

Although neither the Bank nor any other System institution receives any direct government support, credit quality is indirectly enhanced by government support in the form of program payments to borrowers, which improve their ability to honor their commitments.

The Bank's high-risk assets continue to be a small percentage of total loans in 2023, similar to 2022 and 2021, primarily due to generally favorable economic conditions, the Bank's underwriting standards, and continuous efforts to resolve problem assets. Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and accrued interest. High-risk assets at December 31, are detailed in the following table:

(dollars in thousands)	**2023**	**2022**	**2021**
AgFirst High-risk Assets			
Nonaccrual loans	$ 44,081	$ 37,118	$ 35,179
Accruing restructured loans*	—	43,386	25,100
Accruing loans 90 days past due	—	1,586	5,781
Total high-risk loans	44,081	82,090	66,060
Other property owned	260	—	—
Total high-risk assets	$ 44,341	$ 82,090	$ 66,060
Ratios			
Nonaccrual loans to total loans	0.13 %	0.12 %	0.12 %
High-risk assets to total assets	0.10 %	0.20 %	0.17 %

**Prior to the adoption of CECL on January 1, 2023, accruing restructured loans were considered high-risk loans.*

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank at December 31, 2023 were $44.1 million compared to $37.1 million at December 31, 2022. Nonaccrual loans increased $7.0 million during 2023 due primarily to loan balances transferred to nonaccrual status of $36.0 million, partially offset by charge-offs of $15.7 million, repayments of $11.0 million and reinstatements to accrual status of $4.2 million.

Nonaccrual by Eligibility

	2023		2022		2021	
	Total Amount	**% of Total**	**Total Amount**	**% of Total**	**Total Amount**	**% of Total**
Rural Home Loans	$ 22,067	50.06 %	$ 17,210	46.37 %	$ 17,297	49.17 %
Tree Fruits and Nuts	10,112	22.94 %	—	— %	—	— %
Field Crops	6,815	15.46 %	13,339	35.94 %	—	— %
Grains	2,346	5.32 %	3,143	8.47 %	—	— %
Utilities	2,067	4.69 %	2,966	7.99 %	10,980	31.21 %
Other Real Estate	674	1.53 %	460	1.23 %	984	2.80 %
Cotton	—	— %	—	— %	270	0.77 %
Forestry	—	— %	—	— %	283	0.80 %
Tobacco	—	— %	—	— %	5,365	15.25 %
Total	$ 44,081	100.00 %	$ 37,118	100.00 %	$ 35,179	100.00 %

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. At December 31, 2023, the OPO balance consisted of one real estate holding in the rural home loan segment totaling $260 thousand. The Bank had no OPO at December 31, 2022 or 2021.

Allowance for Credit Losses

Effective January 1, 2023, the Bank adopted the CECL accounting guidance that replaced the incurred loss impairment methodology with a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This framework requires that management's estimate reflect credit losses over the asset's remaining expected life and consider the reasonable and supportable forecasts of macroeconomic conditions. The expected life of each financial instrument is determined by considering its contractual term and expected prepayments, when appropriate, and excludes expected extensions, renewals and modifications unless the extension or renewal options are not unconditionally cancellable. See *Critical Accounting Policies, Note 2 - Summary of Significant Accounting Policies* and *Note 3 - Loans and Allowance for Credit Losses* sections for further discussion of the ACL methodology.

Upon adoption of CECL, the Bank recorded a Day 1 increase in the ACL of $15.7 million, which included a $12.2 million increase in the allowance for loan losses and a $3.5 million increase in the allowance for unfunded commitments due to the requirement to estimate losses over the contractual life of financial assets. These increases were primarily in the rural residential mortgage portfolio. The Day 1 increase in the ACL was recorded as a reduction of unallocated retained earnings as outlined by accounting guidance.

The following table presents the activity in the allowance for credit losses for the most recent three years at December 31:

AgFirst Allowance for Credit Losses Activity

(dollars in thousands)	2023	2022	2021
Allowance for loan losses - beginning balance	$26,070	$20,147	$18,257
Cumulative effect of change in accounting principle	12,162	—	—
Charge-offs:			
Real Estate Mortgage	(15)	(13)	—
Production and Intermediate-Term	(14,907)	(10)	—
Rural Infrastructure	(701)	(864)	—
Rural Residential Real Estate	(274)	(1,279)	(1,881)
Total charge-offs	(15,897)	(2,166)	(1,881)
Recoveries:			
Production and Intermediate-Term	—	—	21
Rural Infrastructure	41	—	—
Rural Residential Real Estate	141	385	198
Total recoveries	182	385	219
Net (charge-offs) recoveries	(15,715)	(1,781)	(1,662)
Provision for loan losses	16,903	7,704	3,552
Allowance for loan losses - ending balance	$39,420	$26,070	$20,147
Allowance for unfunded commitments - beginning balance	$ 1,497	$ 588	$ 432
Cumulative effect of a change in accounting principle	3,492	—	—
Provision for unfunded commitments*	(950)	909	156
Allowance for unfunded commitments - ending balance	$ 4,039	$ 1,497	$ 588
Total allowance for credit losses	$43,459	$27,567	$20,735
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.05)%	(0.01)%	(0.01)%

**Prior to the adoption of CECL, provision for unfunded commitments was recorded in losses/gains on other transactions.*

The allowance for loan losses totaled $39.4 million at December 31, 2023, as compared with $26.1 million at December 31, 2022 and $20.1 million at December 31, 2021. The allowance for loan loss at December 31, 2023 included reserves for individually evaluated loans of $4.9 million (12.34 percent of the total) and $34.6 million (87.66 percent) of reserves for collectively evaluated loans. The general reserves at December 31, 2023 also included $18.2 million of allowance provided by the Bank for non-LTSP loans in the Correspondent Lending portfolio. None of the allowance relates to the Direct Note portfolio. See further discussion in *Direct Notes* and *Correspondent Lending* in the *Loan Portfolio* section, above. For details regarding loan loss provision expense and reversals, see *Provision for Loan Losses* in the *Results of Operations* section, above.

During 2023, charge-offs were the result of isolated credits in the tree fruits and nuts (66.87 percent of the total) and field crops (26.90 percent) segments. The total allowance at December 31, 2023 was comprised primarily of reserves for the rural home loan (47.28 percent of the total), tree fruits and nuts (13.14 percent), processing (12.95 percent), and utilities (8.23 percent) segments.

The total allowance at December 31, 2022 was comprised primarily of reserves for the rural home loan (23.76 percent of the total), processing (16.18 percent), field crops (15.56 percent), utilities (9.11 percent), and forestry (6.72 percent) segments.

The allowance for credit losses by loan type for the most recent three years, at December 31, is presented in the following table:

AgFirst Allowance for Credit Losses by Loan Type

(dollars in thousands)	2023	2022	2021
Real Estate Mortgage	$ 2,002	$ 1,421	$ 1,513
Production and Intermediate-Term	5,894	6,757	3,583
Agribusiness	8,911	8,212	5,532
Rural Infrastructure	3,840	2,945	3,848
Rural Residential Real Estate	18,758	6,194	5,149
Other	15	541	522
Total Allowance for Loan Losses	$ 39,420	$ 26,070	$ 20,147
Allowance for Unfunded Commitments	4,039	$ 1,497	$ 588
Total Allowance for Credit Losses	$ 43,459	$ 27,567	$ 20,735

The allowance for credit losses as a percentage of loans outstanding and certain other credit quality indicators, at December 31, is shown below:

	2023	2022	2021
Allowance for loan losses to loans	0.11 %	0.08 %	0.07 %
Allowance for loan losses to nonaccrual loans	89.43 %	70.24 %	57.27 %
Allowance for loan losses to loans excluding Direct Note	0.35 %	0.25 %	0.23 %

Periods of uncertainty in the general economic environment create the potential for prospective risks in the loan portfolio. See Note 3, *Loans and Allowance for Credit Losses*, in the Notes to the Financial Statements and the *Critical Accounting Policies* section, above, for further information concerning the allowance for credit losses. See Note *2, Summary of Significant Accounting Policies,* in the Notes to the Financial Statements for the impact of the CECL accounting standard adopted on January 1, 2023.

Interest Rate Risk Management

Interest rate risk is the uncertainty of earnings or long-term market value of equity that result from adverse changes in market interest rates. This risk may produce earnings variability as measured by net interest income and, ultimately, the long-term capital position of the Bank. The primary objective of interest rate risk management is to generate an adequate level of net interest income in any environment while balancing the risk/return trade-off necessary for both shareholder returns and safety and soundness.

AgFirst uses various analytical techniques to quantify interest rate risk including gap analysis to assess the repricing and maturity characteristics of the balance sheet. Simulation analysis is used to measure potential change in net interest income and market value of equity under diverse future market interest rate scenarios.

Loan products offered by the District Associations include fixed and floating rate loans (variable rate and adjustable-rate). District Associations adhere to a philosophy that pricing should be competitive. Loans are prepayable and repayment schedules may be fitted to a borrower's unique circumstances. Floating rate loans may be indexed to the Prime rate or other reference rate-indexed, such as Treasury rates and Secured Overnight Financing Rate (SOFR), and are offered with or without caps. Loan maturities are available for up to 30 years.

The following table sets forth the repricing characteristics of interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2023. The amount of assets and liabilities shown in the table, which reprice or mature during a particular period, were determined in accordance with the earlier of term-to-repricing or contractual maturity, anticipated prepayments, and, in the case of liabilities, the exercise of call options. Anticipated loan prepayments are based on AgFirst's historical prepayment activity during various interest rate cycles.

	Repricing/Maturity Gap Analysis				
(dollars in thousands)	**0 to 6 Months**	**6 Months to 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**
Floating Rate Loans					
Adjustable/Indexed Loans	$ 10,221,978	$ 208	$ 351	$ —	$ 10,222,537
Fixed Rate Loans					
Fixed Rate Loans	60,505	50,532	244,175	167,708	522,920
Fixed Rate Prepayable	2,110,099	2,267,529	10,747,123	8,412,435	23,537,186
Nonaccrual Loans					
Nonaccrual Loans	—	—	—	44,081	44,081
Total Loans	**12,392,582**	**2,318,269**	**10,991,649**	**8,624,224**	**34,326,724**
Total Investments *	**3,464,379**	**866,104**	**3,060,810**	**2,094,344**	**9,485,637**
Other Interest-earning Assets	**425,314**	**—**	**—**	**—**	**425,314**
TOTAL INTEREST-EARNING ASSETS	**$ 16,282,275**	**$ 3,184,373**	**$ 14,052,459**	**$ 10,718,568**	**$ 44,237,675**
Interest-Bearing Liabilities					
Systemwide Bonds and Notes	$ 16,131,905	$ 3,460,535	$ 14,957,000	$ 8,134,000	$ 42,683,440
TOTAL INTEREST-BEARING LIABILITIES	**$ 16,131,905**	**$ 3,460,535**	**$ 14,957,000**	**$ 8,134,000**	**$ 42,683,440**
Interest Rate Sensitivity Gap	**$ 150,370**	**$ (276,162)**	**$ (904,541)**	**$ 2,584,568**	
Cumulative Gap	$ 150,370	$ (125,792)	$ (1,030,333)	$ 1,554,235	
Cumulative Gap as a % of Total Earning Assets	0.34 %	(0.28)%	(2.33)%	3.51 %	

** Includes cash equivalents.*

As of December 31, 2023, the Bank's twelve-month cumulative repricing/maturity gap position was slightly liability sensitive, meaning the amount of repricing/maturing liabilities exceeded the amount of assets that mature or reprice during the same period. Liability sensitivity means higher interest rate scenarios are expected to produce less net interest income and conversely, lower interest rate scenarios are expected to generate more net interest income.

To gain further insight to the Bank's interest rate risk exposure, a financial simulation model is used to conduct net interest income simulation analysis that considers balance sheet behavioral tendencies, such as the level of loan prepayments based on various market rate scenarios, to supplement the repricing/maturity gap analysis. Unlike the repricing/maturity gap analysis, these simulations capture the impact of embedded balance sheet optionality. An immediate interest rate shock assumption is used to ascertain the expected change in the market value of equity. These two interest rate risk metrics are measured and reported monthly to the Bank's ALCO and quarterly to the Board of Directors.

As of December 31, 2023, the simulation assuming an immediate 200 basis point parallel increase in market interest rates measured an increase in net interest income of 5.86 percent which was within the Bank's policy limit of -16.00 percent. Net interest income increases in scenarios that assume an immediate parallel decrease in market interest rates because the Bank can call and replace debt more rapidly than assets are expected to reset.

As of December 31, 2023, the market value of equity metric would decline in response to increasing interest rate scenarios due to the Bank's strategy of utilizing equity as a long-term funding source. Market value of equity would decline by 16.12 percent assuming an immediate 200 basis point parallel increase in market interest rates which was within the Bank's policy limit of -20.00 percent. Market value of equity would increase by 36.38 percent assuming an immediate 200 basis point parallel decrease in market interest rates. AgFirst's interest rate risk exposure as measured using net interest income at risk over the next twelve months and market value of equity as of December 31, 2023, and December 31, 2022, are provided in the following table. The upward and downward shocks generally capture the effects of embedded options and convexity within the assets and liabilities based on movements in interest rates.

	December 31, 2023			
	-200	**-100**	**+100**	**+200**
Change in net interest income	17.80%	7.81%	3.18%	5.86%
Change in market value of equity	36.38%	15.50%	(9.91)%	(16.12)%

	December 31, 2022			
	-200	**-100**	**+100**	**+200**
Change in net interest income	(3.26)%	(2.14)%	3.72%	7.65%
Change in market value of equity	20.05%	7.11%	(4.18)%	(5.44)%

As of December 31, 2022, the Bank changed the methodology used to determine Direct Note rates on outstanding advances. The change in Direct Note rate administration reduced the duration of the Direct Notes and the average Direct Note rate applicable to the portfolio. As a result, MVE sensitivity decreased from -17.80 percent (calculated under the previous methodology) to -5.44 percent for a +2.0 percent shock at December 31, 2022. The Bank subsequently reverted to the previous methodology effective May 31, 2023.

The Bank may use derivatives designated as a cash flow or fair value hedge to manage interest rate risk exposure. Derivatives are prohibited for speculative purposes. As of December 31, 2023, the Bank had foreign currency forwards and forward commitments outstanding with a notional value of $8.1 million. As of December 31, 2022, the Bank had foreign currency forwards outstanding with a total notional value of $1.1 million.

The LIBOR Transition

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

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

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

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

The Bank's variable-rate financial instruments outstanding with LIBOR exposure as of December 31, 2023 equaled less than 0.1% of total Bank assets. The Association's had no outstanding LIBOR exposure as of December 31, 2023.

Liquidity Risk Management

The objective of liquidity risk management is to ensure the Bank's ability to meet its financial obligations during normal business-as-usual and stressed conditions. One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. Along with normal cash inflows associated with lending activities, AgFirst has three primary sources of liquidity: cash, the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation, and high-quality liquid securities. The Bank can also execute secured borrowings through repurchase agreements that are in place with several commercial banks and the Federal Reserve. In addition, the System has established a line of credit with Federal Financing Bank (see further discussion in *Systemwide Debt Securities* section below) in the event contingency funding is needed to meet obligations of System banks.

Cash, Cash Equivalents and Investments

FCA regulations provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its quarterly average balance of total loans outstanding. Based upon FCA guidelines, as of December 31, 2023, the Bank's eligible available-for-sale investments were 30.56 percent of the quarterly average daily balance of loans outstanding. These investments serve to provide liquidity to the Bank's operations, to manage short-term funds, and to manage interest rate risk. AgFirst maintains an investment portfolio for these purposes comprised primarily of high-quality liquid investments.

Cash, cash equivalents, and investment securities as of December 31, 2023, totaled $10.1 billion compared to $10.2 billion and $10.4 billion as of December 31, 2022, and 2021, respectively.

FCA regulations require the Bank maintain a liquidity policy that establishes a minimum total "coverage" level of 90 days. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank. As of December 31, 2023, AgFirst exceeded all applicable regulatory liquidity requirements.

Eligible liquidity investments are classified into three liquidity quality levels with level 1 being the most liquid. The first 15 days of minimum liquidity coverage are to be met using only level 1 instruments, which include cash and cash equivalents. Days 16 through 30 of minimum liquidity coverage are to be met using level 1 and level 2 instruments. Level 2 consists primarily of U.S. government guaranteed securities. Days 31 through 90 are met using level 1, level 2, and level 3 securities. Level 3 consists primarily of U.S. agency investments. Additionally, a supplemental liquidity buffer in excess of the 90-day minimum liquidity reserve is set to provide coverage to at least 120 days.

As of December 31, 2023, AgFirst met all individual level criteria and had a total of 219 days of maturing debt coverage. The Bank's cash and cash equivalents position provided 24 days of the total liquidity coverage. Investment securities fully backed by the U.S. government or U.S. government agencies provided 172 days of liquidity. An additional 23 days of coverage were provided by a supplemental liquidity buffer. Cash provided by the Bank's operating activities, primarily generated from net interest income more than operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. At December 31, 2023, the Bank held $41.3 million in U.S. Treasury securities for that purpose. The remainder of the compensating balance is held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

AgFirst's cash, cash equivalents and investment portfolio consisted of the following security types as of December 31:

	AgFirst Cash, Cash Equivalents and Investment Securities					
(dollars in thousands)	2023		2022		2021	
Investment Securities Available-for-Sale						
U.S. Govt. Treasury Securities	$ 41,317	0.48 %	$ 139,716	1.54 %	$ 342,113	3.66 %
U.S. Govt. Guaranteed	3,626,462	41.92	3,979,473	43.85	4,165,087	44.61
Rural Housing U.S. Govt. Agency Guaranteed	115,562	1.34	127,567	1.41	175,958	1.88
Other U.S. Govt. Agency Guaranteed	4,173,996	48.25	4,409,978	48.59	4,280,477	45.85
Non-Agency Asset-Backed Securities	682,150	7.88	405,016	4.46	353,937	3.79
Total Available-for-Sale	$ 8,639,487	99.87 %	$ 9,061,750	99.85 %	$ 9,317,572	99.79 %
Investment Securities Held-to-Maturity						
Farmer Mac Guaranteed	$ 184	— %	$ 436	— %	$ 475	0.01 %
Other Mission Related Investments	10,966	0.13	13,622	0.15	18,658	0.20
Total Held-to-Maturity	11,150	0.13	14,058	0.15	19,133	0.21
Total Investment Securities	$ 8,650,637	100.00 %	$ 9,075,808	100.00 %	$ 9,336,705	100.00 %
Cash and Cash Equivalents						
Cash	$ 260,169	17.45 %	$ 332,977	30.37 %	$ 521,502	50.87 %
Interest-earning Cash	395,645	26.54	413,415	37.71	103,786	10.12
Repurchase Agreements	835,000	56.01	350,000	31.92	400,000	39.01
Total Cash and Cash Equivalents	$ 1,490,814	100.00 %	$ 1,096,392	100.00 %	$ 1,025,288	100.00 %
Total Investment Securities and Cash and Cash Equivalents	$ 10,141,451		$ 10,172,200		$ 10,361,993	

Cash and cash equivalents, which increased $394.4 million from December 31, 2022 to a total of $1.5 billion at December 31, 2023, consist primarily of noninterest- and interest-earning cash on deposit and money market securities that are short-term in nature (maturities of overnight to 90 days). Incremental movements in cash and cash equivalents balances between reporting periods are due primarily to changes in liquidity needs in relation to upcoming debt maturities and operational funding needs. The increase in 2023 is primarily due to the addition and increased usage of the Federal Reserve Repurchase Agreement facility during the fourth quarter of 2023.

Investment securities decreased $425.2 million, or 4.68 percent, to $8.7 billion, or 19.23 percent of total assets at December 31, 2023, compared to $9.1 billion, or 21.57 percent, as of December 31, 2022. The Bank lowered its target investment balance to allow the Bank to optimize capital and reduce the relative exposure to price volatility inherent in the investment portfolio.

Investment securities classified as available-for-sale totaled $8.6 billion at December 31, 2023. Since most of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited. As of December 31, 2023, all of the non-agency asset-backed securities were rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs).

AgFirst also maintains a portfolio of investments that are not held for liquidity purposes and are accounted for as a held-to-maturity portfolio. These investments were authorized by FCA regulations and permit investments in Farmer Mac securities and Mission Related Investments. Investment securities classified as held-to-maturity declined to $11.2 million at December 31, 2023, due to normal paydowns on the securities.

Net unrealized losses related to investment securities were $893.2 million at December 31, 2023, compared to a net unrealized loss of $994.2 million at December 31, 2022. The net unrealized losses are primarily the result of the significant increase in market interest rates during 2022 and 2023 which reduced the fair value of available-for-sale fixed rate investment securities held. It is anticipated that these securities will be held until recovery with no loss realized.

In the unlikely event the Bank could not access the capital markets to issue debt or raise cash through repurchase agreements, the Bank approximates it could cover at least 55 days of maturing debt through sales of available-for-sale securities before recognizing a loss.

There was no allowance for credit losses on investments as of December 31, 2023. See Note 2, *Summary of Significant Accounting Policies* and Note 4, *Investments,* in the Notes to the Financial Statements for further information.

Systemwide Debt Securities

The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. However, the Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America.

AgFirst's primary source of liquidity comes from its ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the System banks. AgFirst continually raises funds in the debt markets to support its mission, to repay maturing Systemwide Debt Securities, and to meet other obligations.

The Farm Credit Act and Farm Credit Administration regulations require, as a condition for a Bank's participation in the issuance of Systemwide Debt Securities, that the Bank maintain specified eligible assets, referred to in the Farm Credit Act as "collateral," at least equal in value (100.00 percent) to the total amount of the debt securities outstanding for which it is primarily liable. As of December 31, 2023, and 2022, the ratio of collateral to debt was 103.95 percent and 103.63 percent, respectively.

The ratio of collateral to debt is sensitive to movements in interest rates and credit losses, as the collateral value of investment securities is defined by regulation as the lower of cost or market value and the collateral value of loans is the book value of loans less any allowance for credit losses. The increase in long-term interest rates since 2022 significantly reduced the market values of certain investment securities, which resulted in a significant decrease in the collateral ratio. To reduce the market value sensitivity of the investment portfolio, the Bank is reducing the size of the investment portfolio through natural paydowns while only purchasing uncapped floating rate securities and investing in cash equivalent instruments. The Bank can further manage the collateral ratio by increasing the amount of Bank stock that Associations are required to hold (the Stock Requirement), as the Bank's capitalization bylaws and GFA give the Bank authority to set the Stock Requirement at whatever level is needed to maintain an adequate level of capital. The District's ratio of eligible collateral to debt as of December 31, 2023 was approximately 115.9 percent.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank (FFB), a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the FFB may advance funds to the FCSIC. Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the System banks' ability to repay maturing debt obligations. The agreement provides for advances of up to $10 billion and will remain in full force and effect until terminated by either the FCSIC or the FFB. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

As of December 31, 2023, Moody's Investor Service (Moody's) assigned long-term debt ratings for the System of Aaa and short-term debt ratings of P-1. The Moody's rating is the highest rating available from the three leading rating agencies. S&P Global Ratings (S&P) maintains the long-term debt rating of the System at AA+, which directly corresponds to its AA+ long-term sovereign credit rating of the U.S. government. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's status as a GSE.

On August 1, 2023, Fitch downgraded the long-term credit rating of U.S. Government (sovereign) debt one level to AA+ from the highest rating of AAA, while leaving the short-term credit rating unchanged. Because of this downgrade action, on August 2, 2023, Fitch downgraded the long-term credit rating of System debt to AA+ due to the implied link between the credit rating of the System and the U.S. Government given the System's status as a GSE. The short-term credit rating of the System was not changed. A further reduction in the System's credit rating may increase borrowing costs and limit access to the capital markets, reducing the flexibility to issue debt across the full spectrum of the yield curve. However, AgFirst anticipates continued access to funding necessary to support the District's and Bank's needs.

As of December 31, 2023, AgFirst had $42.7 billion in total System debt outstanding compared to $40.1 billion as of December 31, 2022, and $36.4 billion as of December 31, 2021. Total interest-bearing liabilities increased primarily due to additional funding needs related to higher volume of loans as discussed elsewhere in this report.

Refer to Note 6, *Debt*, in the Notes to the Financial Statements, for additional information related to debt.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. AgFirst's and the Associations' boards of directors are required, by regulation, to adopt internal control policies that provide adequate direction to their respective institutions in establishing effective controls over and accountability for operations, programs, and resources. The policies must include, at a minimum, the following items:

- recruiting and retaining skilled professional employees;
- direction to management that assigns responsibility for the internal control function to an officer of the institution;
- adoption of internal audit and control procedures;
- direction for the operation of a program to review and assess an institution's assets;
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation;
- adoption of asset quality classification standards;
- adoption of standards for assessing credit administration, including the appraisal of collateral; and
- adoption of standards for the training required to initiate a program.

In addition, AgFirst has implemented an Enterprise Risk Management Policy to ensure that business exposures to risk are identified, measured and controlled, using the most effective and efficient methods to mitigate such exposures. AgFirst's risk management structure was designed to ensure that an effective enterprise-wide risk management program is in place. Exposure to operational risk is typically identified with the assistance of senior management, and internal audit plans are developed with higher risk areas receiving more attention. AgFirst's operations rely on the secure processing, transmission and storage of confidential information in its computer systems and networks. Although AgFirst believes that it has robust information security procedures and controls, its technologies, systems, networks and customers' devices may be the target of cyber-attacks or information security breaches. Failure in or breach of AgFirst's operational or security systems or infrastructure, or those of its third-party vendors and other service providers, including as a result of cyber-attacks, could disrupt AgFirst's businesses or the businesses of its customers, resulting in the unintended disclosure or misuse of confidential or proprietary information, damage the Bank's reputation, increase costs, and cause losses.

No control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control systems are met. Also, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or errors can be detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts of some persons, collusion of two or more people, or management override of the control. The design of any system of controls also is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may be inadequate because of changes in conditions, or compliance with policies or procedures may deteriorate.

Human Capital

The Bank recognizes that its employees are the key to success and therefore, strives to make the workplace attractive for all employees. Effective human capital management results from the recruitment and retention of a highly qualified workforce that is aligned with the Bank's core values and mission. The Bank has an onboarding program dedicated to familiarizing all new hires with the culture, values and the mission of effectively serving the needs of rural America and agriculture.

The Bank's human capital strategy is carried out under the oversight of the Board of Directors. The strategy includes a Human Capital Plan (Plan) that focuses on three broad areas: (1) assessment of workforce and performance management, (2) succession planning and (3) diversity and inclusion.

Assessment of Workforce and Performance Management
The Plan provides a description of the workforce and an assessment of strengths and weaknesses within the workforce. The Plan also takes into account effective strategies to evaluate the workforce including reviewing job descriptions to make sure the skills needed are accurately defined, engaging in a performance review process to assess skills desired against skills employees have, and training to address any gaps.

Succession Programs
Succession planning is necessary to ensure that talent and skills are available and essential knowledge and organizational culture are maintained when employees in key positions depart. The Plan also provides for management succession planning and strategies with the main objective of identifying critical workforce positions and developing a targeted pool of potential successors.

Diversity and Inclusion
Diversity and inclusion are embedded within each phase of the employment life cycle, including recruitment, on-boarding, new employee immersion and employee retention and development. This supports employees maximizing their engagement and realizing their full potential. Effective diversity and inclusion strategies require a continuous cultivation of a welcoming, inclusive and collaborative environment that values the life experiences of all employees.

At December 31, 2023, the Bank employed 502 full-time employees of which 48% were women, 52% men and 34% minorities, based on employee self-reporting.

Reputational Risk Management

Reputation risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the Bank, System or any of its entities. Such risks include impacts related to investors' perceptions about agriculture, the reliability of the Bank, System, or other System institution financial information or actions by the Bank or any other System institution. Entities that serve the System at the national level, including the Presidents' Planning Committee and The Farm Credit Council (see below), will communicate guidance to the System for reputational issues that have broader consequences for the System as a whole. These entities support those business and other practices that are consistent with the Bank's mission.

Political Risk Management

Political risk to the Bank and System is the risk that actions taken by the U.S. government may negatively impact the System or the agriculture industry. System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agriculture and rural America. The System and its borrowers may be significantly affected by federal legislation that impacts the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. However, government support programs generally account for a relatively small percentage of net farm income in the territory served by the District Associations.

The District addresses political risk by actively supporting The Farm Credit Council, which is a full-service trade association representing the System before Congress, the Executive Branch, and others. The Farm Credit Council provides the mechanism for "grassroots" involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, the District takes an active role in representing the individual interests of System institutions and their borrowers before Congress. Each district has its own Council, which is a member of The Farm Credit Council. The district Councils represent the interests of their members on a local and state level, as well as on a federal level.

Cybersecurity

Cyber risk is the risk of loss, disruption or damage to the reputation of the Bank due to the failure or unauthorized or erroneous use of its information systems. The Bank has risk management policies and procedures to assess, identify and manage material risks from cybersecurity threats with the goal of providing the appropriate level of protection to maintain confidentiality, integrity and availability of the Bank's, District Associations' and borrowers' information. The Bank engages in a variety of activities to assess cybersecurity risks and implement layers of controls to prevent, detect or mitigate these risks. The effectiveness of the controls are tested through internal and external audits and assessments, including regular penetration tests, vulnerability scans and business continuity/disaster recovery tests. The Bank leverages industry standards and frameworks such as the National Institute of Standards and Technology, Center for Internet Security, and International Organization for Standardization to guide its cybersecurity management activities. In addition, the Bank has a cybersecurity incident response plan that assesses the nature and scope of an incident, the information systems and types of information accessed or misused, steps to be taken to resume business activities and reporting to the Board of Directors, the Farm Credit Administration, customers (former, current and potential) and employees. No cybersecurity threats or incidents have materially impacted the Bank or District Associations during the past three years.

The Risk Policy Committee of the Bank's Board of Directors oversees the risks from cybersecurity threats. The Bank's cybersecurity risk management is led by the Chief Information Security Officer (CISO), who reports to the Risk Policy Committee multiple times annually.

CAPITAL

Capital serves to support future asset growth and investment in new products and services, and to provide protection against credit, interest rate, and other risks, as well as operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

The AgFirst Capitalization Plan (the "Plan") approved by the Bank's Board of Directors establishes guidelines to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. The Bank's capital objectives are considered adequate to support inherent risk.

The following tables summarizes changes in Bank's Capital during the year:

Change in Shareholder's Equity	**Year Ended December 31,**	
(dollars in millions)	**2023**	**2022**
Shareholders' Equity (for prior year)	$ 1,451,619	$ 2,302,780
Increase (decrease) due to:		
Net Income	265,320	411,960
Capital stock issued/(retired)	132,320	(3,111)
Change in unrealized gains/(losses) on AFS securities	100,974	(1,016,190)
Cash patronage declared	(251,198)	(212,874)
Cumulative effect of change in accounting principle	(15,654)	—
Redemption of perpetual preferred stock	—	(32,505)
Other	(633)	1,559
Total increase/(decrease) in shareholders' equity	231,129	(851,161)
Shareholder's equity	$ 1,682,748	$ 1,451,619

On October 27, 2023, the Board of Directors approved an increase to the Association minimum required investment in AgFirst from 1.00 percent of the average Direct Note balance to 1.50 percent effective October 31, 2023. This resulted in an increase to the Bank's capital stock of $132.3 million to $432.9 million.

The change in unrealized gains/(losses) on available-for-sale securities in both years is primarily the result of changes in market rates which changes the fair value of existing available-for-sale fixed-rate securities. See further discussion in the *Liquidity Risk Management* section above.

The Bank's patronage declared was based on paying Associations and OFIs a dividend equal to 75 basis points relative to their average Direct Note balance and paying a dividend to participants in Association capitalized participation pools in an amount equal to each Association's respective pool's net income. Patronage related to eligible Capital Markets participations was 100 basis points. Also, favorable earnings, strong credit quality and modest balance sheet growth over an extended period of time have resulted in Bank capital levels that were above target levels. After considering current capital levels and projected capital needs, the Bank's Board of Directors declared an additional patronage totaling $9.5 million in cash, $123.0 million in the form of allocated equities and $274.0 million in cash for 2023, 2022, and 2021, respectively. Cash patronage is paid in the year following declaration, primarily in January.

The Associations are required to maintain ownership in the Bank in the form of Class B and Class C stock. At December 31, 2023, 2022, and 2021, the Associations' minimum stock requirement was 1.50 percent, 1.00 percent, and 1.10 percent, respectively, of risk-adjusted Direct Note balances. The Bank's capital stock and participation certificates totaled $561.5 million at December 31, 2023, compared to $300.5 million and $299.1 million at December 31, 2022 and 2021, respectively. The net increase of $261.0 million in 2023 was due to an increase in the Association minimum required investment in AgFirst discussed above and the redesignation of $123.0 million of the 2022 special patronage in the form of allocated equities to Class C allocated stock. This redesignation effectively increased the stock investment to 2.00 percent.

During 2022, the Bank redeemed the remainder of the Preferred Stock of $32.5 million at par.

See Note 7, *Shareholders' Equity*, in the Notes to the Financial Statements and the *Additional Required Regulatory Capital Disclosures* section for further information.

Regulatory Ratios

The Bank's regulatory ratios (calculated using a three-month average daily balance) are shown in the following table:

	Regulatory Minimum, Including Buffer*	AgFirst Ratios as of December 31,		
		2023	2022	2021
Permanent Capital Ratio	7.00%	15.41 %	15.34 %	18.73 %
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	15.37 %	15.32 %	18.47 %
Tier 1 Capital Ratio	8.50%	15.37 %	15.32 %	18.70 %
Total Regulatory Capital Ratio	10.50%	15.66 %	15.46 %	18.85 %
Tier 1 Leverage Ratio**	5.00%	6.08 %	6.09 %	6.87 %
Unallocated Retained Earnings (URE) and URE Equivalents	1.50%	4.64 %	5.37 %	6.09 %

** Includes full capital conservation buffers.*
*** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations that ensure that the System's capital requirements are comparable with the Basel III framework and the standardized approach of federal banking regulatory agencies. The requirements are based on regulatory ratios as defined by the FCA and include common equity tier 1 (CET1) capital, tier 1 capital, total capital, and tier 1 leverage ratios. The tier 1 leverage ratio must include a minimum unallocated retained earnings (URE) and URE equivalents component. The permanent capital ratio required under the Farm Credit Act remains in effect.

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 presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The decline in regulatory ratios from 2021 to 2022 was primarily driven by asset growth coupled with the Bank distributing virtually all 2021 earnings.

See the *Additional Required Regulatory Capital Disclosures* section for further information.

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

The District is committed to providing sound and dependable credit to YBS farmers and ranchers. Because of the unique needs of these individuals, and their importance to the future of agriculture, the Associations have established annual marketing goals to increase market shares 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' access to a stable source of credit. AgFirst and the District Associations recognize that YBS farmers are vitally important to the future of agriculture and are committed to continue offering programs to help educate, assist, and provide quality financial services to YBS farmers.

The FCA regulatory definitions for YBS farmers and ranchers are as follows:

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

It is important to note that, due to the regulatory definitions, a farmer/rancher may be included in multiple categories if the definition was met for each category.

The following table summarizes information regarding the combined District's loans outstanding to Young and Beginning Farmers and Ranchers as of December 31, 2023:

Young and Beginning Farmers and Ranchers
Number/Volume of Loans Outstanding
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total loans and commitments outstanding at year-end	166,215		$ 44,949,081	
2. Young farmers and ranchers	34,577	20.80 %	$ 4,834,728	10.76 %
3. Beginning farmers and ranchers	60,939	36.66 %	$ 9,520,900	21.18 %

The following table summarizes information regarding the combined District's loans outstanding to Small Farmers and Ranchers as of December 31, 2023:

Small Farmers and Ranchers
Number/Volume of Loans Outstanding by Loan Size
(dollars in thousands)

Number/Volume Outstanding	$0-$50,000	$50,001-$100,000	$100,001-$250,000	$250,001 and greater
1. Total number of loans and commitments outstanding at year-end	71,776	30,235	34,756	29,448
2. Total number of loans to small farmers and ranchers	51,074	19,565	20,763	10,493
3. Number of loans to small farmers and ranchers as a % of total number of loans	71.16 %	64.71 %	59.74 %	35.63 %
4. Total loan volume outstanding at year-end	$ 1,485,407	$ 2,191,756	$ 5,545,078	$ 35,726,840
5. Total loan volume to small farmers and ranchers	$ 1,024,635	$ 1,412,292	$ 3,264,765	$ 5,442,932
6. Loan volume to small farmers and ranchers as a % of total loan volume	68.98 %	64.44 %	58.88 %	15.23 %

The following table summarizes information regarding the combined District's new loans made to Young and Beginning Farmers and Ranchers for the year ended December 31, 2023:

Young and Beginning Farmers and Ranchers
Gross New Business During 2023, Number/Volume of Loans
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total gross new loans and commitments made during 2023.	36,675		$ 16,664,911	
2. Total loans and commitments made during 2023 to young farmers and ranchers.	7,711	21.03 %	$ 1,247,138	7.48 %
3. Total loans and commitments made during 2023 to beginning farmers and ranchers.	12,797	34.89 %	$ 2,324,285	13.95 %

The following table summarizes information regarding the combined District's new loans made to Small Farmers and Ranchers for the year ended December 31, 2023:

Small Farmers and Ranchers
Gross New Business by Loan Size, Number/Volume of Loans
(dollars in thousands)

Number/Volume	$0-$50,000	$50,001 - $100,000	$100,001-$250,000	$250,001 and greater
1. Total number of new loans and commitments made during 2023	14,240	6,974	7,646	7,815
2. Total number of loans made to small farmers and ranchers during 2023	10,237	4,050	3,972	2,054
3. Number of loans to small farmers and ranchers as a % of total number of loans	71.89 %	58.07 %	51.95 %	26.28 %
4. Total gross loan volume of all new loans and commitments made during 2023	$ 366,514	$ 530,371	$1,273,841	$14,494,186
5. Total gross loan volume to small farmers and ranchers	$ 250,474	$ 303,068	$ 638,939	$1,150,872
6. Loan volume to small farmers and ranchers as a % of total gross new loan volume	68.34 %	57.14 %	50.16 %	7.94 %

COMMITMENTS AND CONTINGENCIES

On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from legal actions pending against AgFirst would be immaterial in relation to the financial position of AgFirst. Refer to Note 11, *Commitments and Contingencies*, in the Notes to the Financial Statements for additional information.

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 percent risk-weighting to such exposures, instead of the current 100 percent. The rule would further align the FCA's risk-weightings with federal banking regulators and recognizes the increased risk posed by HVCRE exposures. The final rule excludes certain acquisition, development and construction loans that do not present as much risk and therefore do not warrant the risk weight for HVCRE. In addition, the final rule adds an exclusion for loans originated for less than $500,000. The final rule will become effective on January 1, 2025.

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

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

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

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

Additional 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,* to the Financial Statements included in this Annual Report to shareholders.

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

Unincorporated Business Entities

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

Description of Property

The following table sets forth certain information regarding the properties owned by the Bank at December 31, 2023, all of which are located in Columbia, South Carolina:

Location	Description
1115 Calhoun Street	Bank operations facility
1901 Main Street	Bank office building and adjacent parking facility, partially leased to tenants

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

Management's Discussion & Analysis of Results of Operations & Financial Condition, which appears in this Annual Report to shareholders 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 Bank.

The chief executive officer and all other senior officers of the Bank, together with their length of service at their present position, as well as positions held currently and during the last five years, are as follows:

Name and Title	Time in Position	Prior Experience	Other Business Interests
Leon T. Amerson, *President and Chief Executive Officer*	11.5 years		Member on the Finance Committee and Business Practices Committee of the Presidents Planning Committee of the Farm Credit System; Member of the Executive Council of the National Council of Farmer Cooperatives; Member of the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee.
William E. Brown, *Executive Vice President and Chief Credit Officer*	6.5 years		
James A. Bumgarner, *Executive Vice President and Chief Administrative Officer*	2.25 years	Chief Stakeholder Relationship Officer May 2021 to October 2021, Vice President and Director of Association Relationships July 2016 to May 2021	Board Member of the Farm Credit Captive Insurance Company.
Stephen Gilbert, *Executive Vice President and Chief Financial Officer*	6.75 years		Member of the Farm Credit System Disclosure Committee; Appointed Member and Chair of the AgFirst/FCBT Plan Fiduciary Committee.
Frances S. Griggs, *Executive Vice President and General Counsel*	6.75 years		Chairperson of the Girl Scouts of South Carolina – Mountains to Midlands.
Darrick T. Paul, *Executive Vice President and Chief Human Resources Officer*	1.25 years	Healthcare HR and Talent Consultant January 2021 to November 2022, Chief People Officer at Medical University of South Carolina Health August 2016 to January 2021	Board Member of Hollywood (SC) Animal Charities.
Juan Silvera, *Executive Vice President and Chief Marketing Officer*	2.25 years	Executive Director, Marketing, Brand and Product Management 2020 to October 2021, Chief Marketing Officer at Rabobank N.A. from 2016 to 2020	
Irvinder Singh, *Executive Vice President and Chief Information Officer*	0.25 years	Principal Director, Technology from July 2023 to November 2023, Senior Vice President, Technology Director at Wells Fargo from 2021 to 2023, Chief Technology Officer, Card Services at Fiserv from 2018 to 2021	
Chad E. Toney, *Executive Vice President and Chief Information Security Officer*	2.5 years	Vice President, Infrastructure and Operations July 2017 to June 2021	Member of Evanta Governing Body of the Charlotte Information Security Officer community.
Daniel E. LaFreniere, *Executive Vice President and Chief Audit Executive*	10.5 years		

The total amount of compensation earned by the Chief Executive Officer (CEO) and the senior officers and other highly compensated employees (HCE) as a group during the years ended December 31, 2023, 2022, and 2021, is as follows:

Name of Individual or Number in Group	Year	Salary	Incentives	Deferred Comp.	Change in Pension Value *(e)*	Perq./ Other*	Total
Leon T. Amerson	2023	$ 969,644	$ 675,682	$ 38,678	$ 613,201	$ 31,588	$ 2,328,793
Leon T. Amerson	2022	$ 932,350	$ 867,055	$ 39,890	$ (1,650,482)	$ 29,379	$ 218,192
Leon T. Amerson	2021	$ 896,506	$ 892,054	$ 44,173	$ 41,659	$ 25,774	$ 1,900,166
11 Officers/HCE *(a) (b)*	2023	$ 3,718,050	$ 2,123,092	$ 163,842	$ 260,612	$ 685,472	$ 6,951,068
10 Officers/HCE *(a) (c)*	2022	$ 3,019,657	$ 2,592,040	$ 201,911	$ (338,228)	$ 374,996	$ 5,850,376
11 Officers/HCE *(a) (d)*	2021	$ 3,302,532	$ 2,068,677	$ 238,986	$ 93,210	$ 1,313,267	$ 7,016,672

* *For all years, includes company contributions to 401(k) plan (see Note 9, Employee Benefit Plans, to the Financial Statements), group life insurance premiums, spousal travel and Bank-provided automobile. For 2023, also includes a sign-on payment of $100,000 to a senior officer who joined the bank in 2023, payment to one officer of accrued annual leave of $5,578, and a payment to a senior officer who left the Bank in 2023 of $182,500 for separation pay and certain other compensation/benefits. For*

2022, also includes a sign-on payment of $52,500 to a senior officer who joined the Bank in 2022. For 2021, also includes payment to a senior officer who left the Bank in 2021 of $939,206 for separation pay and certain other compensation/benefits, and payment to one officer of accrued annual leave of $883.

(a) Disclosure of information on the total compensation paid to any senior officer, or to any other individual included in the aggregate, for the years presented is available to shareholders upon request.

(b) For 2023, includes ten senior officers and one highly compensated employee. Includes one senior officer who joined the Bank during 2023. Includes one senior officer who left the bank during 2023.

(c) For 2022, includes nine senior officers and one highly compensated employee. Includes one senior officer who joined the Bank during 2022.

(d) For 2021, includes ten senior officers and one highly compensated employee. Includes two senior officers who left the Bank during 2021.

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

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:					
Leon T. Amerson	2023	AgFirst Farm Credit Retirement Plan	37.75	$ 3,520,134	$ —
Leon T. Amerson	2023	AgFirst Farm Credit Bank Supplemental Retirement Plan	37.75	6,000,777	—
				$ 9,520,911	$ —
Senior Officers and Highly Compensated Employees:					
1 Officer, excluding the CEO	2023	AgFirst Farm Credit Retirement Plan	23.58	$ 1,404,964	$ —
				$ 1,404,964	$ —

Executive Incentive Compensation Plan

In addition to a base salary, certain named senior officers may earn additional compensation under the Bank's Executive Incentive Plan, which has a short-term and a long-term component. Participation in the plan is at the sole discretion of the CEO or in the case of the CEO at the sole discretion of the Board of Directors. The objectives of this plan are to provide a market-competitive financial rewards package to executives, provide incentive for the achievement of the AgFirst short- and long-term business objectives and to provide the Bank the ability to attract and retain key executives. The plan's payments are based upon the Bank's achievement of certain performance factors including, but not limited to, capital adequacy, asset quality, profitability, liquidity, and sensitivity, and the senior officers' overall performance achievement as determined by an individual performance rating. Short-term incentive awards are shown in the year earned and payments are made in the first quarter of the following year.

The long-term component of the plan is subject to forfeiture based upon AgFirst's performance during the three-year performance period immediately following the plan year. Specifically, the long-term award for a particular plan year will be reduced by an amount equal to one-third of the original award for each subsequent year during the three-year performance period in which any one of the performance thresholds for capital adequacy or earnings is not achieved.

Long-term incentive award amounts are shown in the year accrued and are vested over a period of time composed of the plan year and the performance period subsequent to the end of the plan year. Incentive awards are forfeited if the participant fails to remain employed until the end of the performance period subsequent to the end of the plan year, unless the end of employment is due to the participant's death or disability, or the Board of Directors, in its sole discretion, determines that the participant should be paid all or a portion of the incentive awards. Effective with the 2021 plan year, the participant is eligible to receive a prorated long-term incentive award if the end of employment is due to retirement and the participant remained employed for at least one year of the performance period.

Capital Markets Incentive Compensation Plan

In addition to a base salary, certain named capital markets staff may earn additional compensation under the Bank's Capital Markets Incentive Plan, which has a short-term and a long-term component. Participation in the plan is limited to named AgFirst employees who work in AgFirst's capital markets activities. The objectives of this plan are to create profitable growth consistent with AgFirst's credit philosophy; attract, retain, and motivate AgFirst capital markets employees; and reward those employees for their performance. The plan's payments are based upon the Bank's achievement of certain performance factors including, but not limited to, net income and fee income, net volume growth, asset quality, and audit results. The capital markets staffs' overall performance achievement is determined by an individual performance rating. Short-term incentive awards are shown in the year earned and payments are made in the first quarter of the following year.

The long-term component of the plan is subject to forfeiture based upon AgFirst's performance during the three-year performance period immediately following the plan year. Specifically, the long-term award for a particular plan year will be reduced by an amount equal to one-third of the original award for each subsequent year during the three-year performance period in which any one of the performance thresholds for capital adequacy or earnings is not achieved.

Long-term incentive award amounts are shown in the year accrued and are vested over a period of time composed of the plan year and the performance period subsequent to the end of the plan year. Incentive awards are forfeited if the participant fails to remain employed until the end of the performance period subsequent to the end of the plan year, unless the end of employment is due to the participant's death or disability, or the Board of Directors, in its sole discretion, determines that the participant should be paid all or a portion of the incentive awards. The participant is eligible to receive a prorated long-term incentive award if the end of employment is due to retirement and the participant remained employed for at least one year of the performance period.

Retirement and Deferred Compensation Plans

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

Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85" once age 55 is reached. Upon retirement, annual payout is equal to 2 percent of the highest three years' average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms and/or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan which has an employer matching contribution determined by the employee's date of hire. For employees hired on or prior to December 31, 2002, the Bank 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 Bank 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 on or after January 1, 2003. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service.

Senior officers and other highly compensated employees participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows certain key employees to defer compensation and which restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions to be made by the Bank.

Chief Executive Officer

Mr. Amerson participates in the AgFirst Farm Credit Retirement Plan, as described above.

Mr. Amerson participates in the AgFirst Farm Credit Bank Supplemental Retirement Plan, a nonqualified supplemental executive retirement plan. Benefits that would have accrued in the qualified defined benefit retirement plan in the absence of Internal Revenue Code limitations are made up through the nonqualified supplemental executive retirement plan. At the election of the retiree, benefits are paid based upon various annuity terms.

Mr. Amerson participates in the Farm Credit Benefits Alliance 401(k) Plan and the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above.

Senior Officers

One senior officer participates in the AgFirst Farm Credit Retirement Plan, as described above.

Senior officers participate in the Farm Credit Benefits Alliance 401(k) Plan and the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above.

Additionally, senior officers as well as all employees are reimbursed for all direct travel expenses incurred when traveling on Bank business. A copy of the travel policy is available to shareholders upon written request.

Bank compensation plans are reviewed annually by the Board of Directors' Compensation Committee.

AgFirst Farm Credit Bank Board of Directors

Information regarding directors who served on December 31, 2023, including business experience in the past five years and any other business interest where a Director serves on the board of directors or as a senior officer follows:

Name	Current Term Expires	Principal Occupation, Board Committees and Other Affiliations
Michael T. Stone Age: 52 Board Appointment: 2015	12/2026	**Principal Occupation:** Owner/operator of P & S Farms, Inc. and Bo Stone Farms, LLC, diverse farming operation. **Board Committees:** Chair of the Board; Chair of the Coordinating Committee and ex-officio member of all Board Committees **Other Affiliations:** Board member: AgCarolina Farm Credit, ACA; Southeastern Health Hospital; North Carolina Farm Bureau Energy and Transportation Committee; Board Chair: The Farm Credit Council; Vice Chair: Farm Credit Council Services; Appointed member and Chair: AgFirst Plan Sponsor Committee, AgFirst/FCBT Plan Sponsor Committee.
William T. Robinson Age: 56 Board Appointment: 2016	12/2023*	**Principal Occupation:** Owner/operator of Robinson Family Farm, which consists of corn, cattle, and timber. Owner/operator of MMR Consultants, LLC, a business consulting firm specializing in utility and industrial market segments. Former Executive Director for the SEFA Group, an engineering, construction, and transportation company. Retired from the Department of Treasury and Corporate Financial Planning at Santee Cooper, a state-owned electric and water utility. **Board Committees:** Vice Chair of the Board: Coordinating, Governance and Compensation Committees **Other Affiliations:** Board member: AgSouth Farm Credit, ACA; Tri-County Electric Cooperative; Member: Farm Credit System Audit Committee.
Gary L. Baldosser **Age**: 57 Board Appointment: 2020	12/2023*	**Principal Occupation:** Owner/operator of Baldosser Farms, Inc., a cow/calf and row crop operation and Garbec Farms, a family land holding entity. **Board Committees:** Audit Committee **Other Affiliations:** Board member: AgCredit Agricultural Credit Association; Sunrise Co-op Clyde Condominium Association, a condominium grain storage association; Trustee: Tri-Grain, LLC, a family land holding entity; Member: Bloc-B, LLC, a family land holding entity.
Jack W. Bentley, Jr. Age: 66 Board Appointment: 2019 Also Served: 2010-2017	12/2026	**Principal Occupation:** Owner/operator A&J Dairy, a dairy, beef, pasture, crop, trucking and timberland operation. **Board Committees:** Audit Committee **Other Affiliations:** Board member: AgFirst Plan Sponsor Committee; AgGeorgia Farm Credit, ACA; Chair: USDA Farm Service Agency; American Dairy Association; Lone Star Milk Producers and Wilkes County Farm Bureau.
Jenny R. Black Age: 49 Board Appointment: 2018	12/2023**	**Principal Occupation:** Certified Project Manager and owner/operator of Jenny Black Consulting, LLC, an information technology consulting company. Serves as manager for citrus and agricultural operations of Ridge Investments, LLC, Black & Myers Properties and BHB Holdings, LLC. **Board Committees:** Coordinating Committee and Chair of the Risk Policy Committee **Other Affiliations:** Board member: Farm Credit of Central Florida, ACA; The Farm Credit Council; Polk County Florida 4-H Foundation, a youth agricultural organization; National Watermelon Promotion Board Public Member (outside director).
Sherry E. Bowden Age: 62 Board Appointment: 2020	12/2023*	**Principal Occupation:** Retired CFO State Street Corporation, a financial services organization; Certified public accountant and certified personal property appraiser. **Board Committees:** Coordinating Committee and Chair of Audit Committee (designated financial expert) **Other Affiliations:** Member: National Society of Accountants for Cooperatives.

William K. Jackson	12/2024	**Principal Occupation:**
Age: 68		Partner in Jackson Farms, a dairy operation with other farming interests. President of Jackson Farms 2, LLC, a small dairy processing facility that bottles milk, makes ice cream, and operates a convenience store. President of Jackson Farms 3, LLC and Jackson Farms Limited Partnership, which are involved in the production of natural gas.
Board Appointment: 2013		**Board Committees:**
		Compensation, Coordinating and Chair of Governance Committee
		Other Affiliations:
		Board member: Horizon Farm Credit, ACA; The Farm Credit Council; Fay-Penn Economic Development Board.
Dwain K. Lanier	12/2025	**Principal Occupation:**
Age: 66		Managing Partner of Pareto Consulting LLC, a performance consulting business. President of Aspire Higher LLC, a real estate rental company. Retired Vice President of Operational and Regulatory Assurance for Tennessee Valley Authority, a federally owned electric utility company. Former President of MEMCO Barge Lines, a barge company. Former Vice President of Progress Energy, an electric utility company.
Board Appointment: 2022		**Board Committees:**
		Risk Policy Committee
		Other Affiliations:
		Board member: Southeast Raleigh YMCA, a non-profit youth and community organization. Vice Chair: Accounting Advisory Board, North Carolina State University.
Fred R. Moore, Jr.	12/2025	**Principal Occupation:**
Age: 71		President of Fred R. Moore & Son, Inc. d/b/a Collins Wharf Sod, a turf and grain operation. Partner of F&E Properties, LLC, a rental business. Partner of F&E Moore Properties, LLC, a land holding partnership.
Board Appointment: 2014		**Board Committees:**
		Risk Policy Committee
		Other Affiliations:
		Board member: Horizon Farm Credit, ACA; Wicomico Soil Conservation District; Wicomico County Farm Bureau; Life Member: Allen Volunteer Fire Company.
Michael W. Patrick	12/2023*	**Principal Occupation:**
Age: 58		Partner in Patrick Farms Joint Venture, a cotton, corn, soybean and timber operation, that includes the following entities where Mr. Patrick serves as Officer: Big Black Farms, Inc.; Cotton Country, Inc.; and Cotton Pickers Inc.
Board Appointment: 2020		**Board Committees:**
		Coordinating, Governance, and Chair of Compensation Committee
		Other Affiliations:
		Board member: First South Farm Credit, ACA; Commissioner: Madison County Soil and Water Commission; Member: Madison County USDA FSA County Committee.
John Whitworth Player	12/2025	**Principal Occupation:**
Age: 57		Owner/operator of J. Whit Player Farms, a farming operation. Owner/operator of Players Stoney Run Farms, a farming operation. Part owner of St. Charles Gin Company, a cotton ginning company. Forestry Technician, South Carolina Forestry Commission, a state agency overseeing forestry management.
Board Appointment: 2022		**Board Committees:**
		Risk Policy Committee
		Other Affiliations:
		Board member: ArborOne, ACA; Carolina Cotton Growers Cooperative, a cotton marketing organization; SC Boll Weevil Eradication Program, an agricultural organization. Part Owner: Canoe Slough LLC, a recreational land holding entity.
David L. Richesin	12/2025	**Principal Occupation:**
Age: 57		Owner/operator of Cherry Brook Farm, a farming operation.
Board Appointment: 2022		**Board Committees:**
		Audit Committee
		Other Affiliations:
		Board member: Chair - River Valley AgCredit, ACA; London County Farm Bureau; Tennessee Farm Bureau Federation, a lobbying organization; Tennessee Farmers Service, an accounting and tax services organization; Tennessee Rural Health, a health insurance service organization; Tennessee Farmers Mutual, an insurance provider.

Alfred W. Stephens, Jr. **Age:** 56 **Board Appointment:** 2023	12/2026	**Principal Occupation:** Owner/operator of Stephens Dairy Farm, a dairy and beef cow/calf operation and farming operation. **Board Committees:** Compensation and Governance Committees **Other Affiliations:** Board member: Farm Credit of the Virginias; Wythe/Bland DHIA, a production, recordkeeping, and data collection organization; VA Tech Dairy Science Advisory Board, an education advisory board.
Ellis W. Taylor **Age**: 54 **Board Appointment:** 2012	12/2023**	**Principal Occupation:** Owner/operator of Mush Island Farms, LLC, a row crop operation. Part owner of Roanoke Cotton Company, LLC, which operates cotton gins and a warehouse. **Board Committees:** Audit Committee **Other Affiliations:** Board member: AgCarolina Farm Credit, ACA, and Chair of Audit Committee; Northampton County Farm Bureau; Northampton County Voluntary Ag District, Federal Farm Credit Banks Funding Corporation.

** These Directors were re-elected for a four-year term beginning January 1, 2024.*
*** These Directors were re-elected for a one-year term beginning January 1, 2024.*

Committees

The Board has established an Audit Committee, Compensation Committee, Risk Policy Committee, Governance Committee and Coordinating Committee. All members of the Board, other than the Chair, serve on a committee. The Chair of the Board serves as an ex-officio member of all Board committees and the Vice Chair serves as a member of the Board Compensation Committee. The Board has one designated financial expert who serves on the Audit Committee. The responsibilities for each committee are set forth in its respective Board approved charter.

During February 2024, the Board elected William T. Robinson as Chair of the Board and Jenny R. Black as Vice Chair of the Board for 2024. The Chair appointed the following Chairpersons to the Board Committees for 2024: Sherry E. Bowden - Audit Committee; Michael W. Patrick - Compensation Committee; Dwain K. Lanier - Risk Policy Committee; William K. Jackson - Governance Committee; and, William T. Robinson - Coordinating Committee.

Compensation of Directors

Directors were compensated in 2023 in cash at the rate of $87,082 per year, payable at $7,257 per month. This is compensation for attendance at Board meetings, Board committee meetings, certain other meetings pre-approved by the Board and other duties as assigned. Farm Credit Administration (FCA) regulations also allow additional compensation to be paid to a director in exceptional circumstances where extraordinary time and effort are involved. In this regard, additional compensation was paid for certain leadership positions on the Board, including the Chair of the Board, Vice Chair of the Board, Chair of each Board standing committee as well as to members of the Board Audit Committee in recognition of greater than normal participation in Board activities. Total cash compensation paid to all directors as a group during 2023 was $1.3 million. Directors received no non-cash compensation during 2023. Additional information for each director who served during 2023 is provided in the following table.

	Number of Days Served			
Name of Director	**Board Meetings**	**Other Official Activities***	**Farm Credit Council Bd. Activities**	**Total Comp. Paid During 2023**
Gary L. Baldosser	16.75	14.50	3.75	$ 94,583
Jack W. Bentley, Jr.	16.75	14.50	3.75	94,583
Jenny R. Black	16.75	17.00	3.75	94,583
Sherry E. Bowden	16.75	19.75	3.75	102,082
William K. Jackson	16.75	17.50	3.75	94,583
Dwain K. Lanier	16.75	16.25	3.75	87,083
Fred R. Moore, Jr.	16.75	13.75	3.75	88,333
Michael W. Patrick	16.75	14.25	3.75	93,333
John Whitworth Player	16.75	13.25	3.75	87,083
David L. Richesin	16.75	14.50	3.75	94,583
William T. Robinson	16.75	17.75	3.75	97,082
Alfred W. Stephens, Jr.	16.75	14.75	3.75	87,083
Michael T. Stone**	16.75	15.25	6.50	107,082
Ellis W. Taylor	16.75	14.50	3.75	94,583
Total				$1,316,659

** Other official activities include Board committee meetings and Board training.*
*** Does not include 3.0 days served as Board-appointed member of the AgFirst and AgFirst/FCBT Plan Sponsor Committees.*

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $103,719 for 2023, $104,866 for 2022, and $33,500 for 2021.

Transactions with Senior Officers and Directors

The Bank's disclosure on loans to and transactions with its officers and directors, to be disclosed in this section, is incorporated herein by reference to Note 10, *Related Party Transactions*, to the Financial Statements included in this Annual Report to shareholders. Such loans are subject to special approval requirements contained in the FCA regulations and were made on the same terms, including interest rate, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons. No loan to a director or to any organization affiliated with such person, or to any immediate family member who resides in the same household as such person or in whose loan or business operation such person has a material financial or legal interest, involved more than the normal risk of collectability.

There have been no transactions between the Bank and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Registered Public Accounting Firm

There were no changes in or material disagreements with the Bank's independent registered public accounting firm on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees paid by the Bank for services rendered by its independent registered public accounting firm for the year ended December 31, 2023 were as follows:

Independent Registered Public Accounting Firm	
PricewaterhouseCoopers LLP (PwC)	
Audit services	$ 966,980
Audit-related services	155,502
Non-audit services	117,300
Total	$ 1,239,782

Audit fees of $966,980 were for the annual audit of the Bank. Audit-related fees were for benefit plan audits and systems and organization controls procedures (SOC-1 readiness assessment and SOC-2 audit). Non-audit fees of $117,300 were for pre-implementation activities for the CECL accounting standard performed in 2022 and paid in 2023, Farmer Mac examination procedures, and Form 990 preparation. Out-of-pocket expenses are included in the fee amounts reported above.

All non-audit services provided by PwC require pre-approval by the Audit Committee.

Financial Statements

The 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 to shareholders are incorporated herein by reference.

Borrower Information Regulations

FCA regulations require that borrower information be held in strict confidence by Farm Credit 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 Farm Credit 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 to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Shareholder Investment

Shareholder investment in a District Association is materially affected by the results of operations and financial condition of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly Reports and combined information concerning AgFirst Farm Credit Bank and District Associations are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, SVP and Controller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. This information can also be obtained at the Bank's website, **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 each Quarterly Report within 40 days after the end of each fiscal quarter, except that no report is prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report on Internal Control Over Financial Reporting

The Bank'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 purposes of this report, "internal control over financial reporting" is defined as a process designed by or under the supervision of the Bank's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America (GAAP).

Internal control over financial reporting 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 Bank, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Bank, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its Financial Statements.

The Bank'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 Bank'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 Bank's management determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2023.

The Bank's internal control over financial reporting as of December 31, 2023 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in the Report of Independent Registered Public Accounting Firm which expresses an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting as of December 31, 2023.

Leon T. Amerson
President and Chief Executive Officer

Stephen Gilbert
Executive Vice President and Chief Financial Officer

March 7, 2024

Report of the Audit Committee

The Audit Committee of the Board of Directors (the Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of AgFirst Farm Credit Bank (the Bank) and in the opinion of the Board of Directors, each is free of any relationship with the Bank 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 Bank's audited financial statements with management, which has primary responsibility for the financial statements. The financial statements were prepared under the oversight of the Committee.

PricewaterhouseCoopers LLP (PwC), the Bank's independent registered public accounting firm for 2023, is responsible for expressing an opinion on the conformity of the Bank'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 PCAOB Auditing Standard No. 16, *Communications with Audit Committees*. The Committee discussed with PwC its independence from the Bank. 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 Bank's Annual Report for 2023. The foregoing report is provided by the following independent directors, who constitute the Committee:

Sherry E. Bowden
Chairman of the Audit Committee

Members of Audit Committee

Gary L. Baldosser
David L. Richesin
Ellis W. Taylor

March 7, 2024

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of AgFirst Farm Credit Bank

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying balance sheets of AgFirst Farm Credit Bank (the "Company") as of December 31, 2023, 2022 and 2021, and the related statements of comprehensive income, of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2023, including the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company changed the manner in which it accounts for the allowance for credit losses in 2023.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Internal Control Over Financial Reporting appearing on page 40 of the 2023 Annual Report. Our responsibility is to express opinions on the Company's financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the relevant ethical requirements relating to our audit, which include standards of the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct and the Farm Credit Administration's independence rules set forth in 12 CFR Part 621, *Accounting and Reporting Requirements*, Subpart E, Auditor Independence.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – Pooled Component

As described in Notes 2 and 3 to the financial statements, the allowance for loan losses was $39 million, of which a majority is related to the pooled component as of December 31, 2023. The allowance for loan losses represents management's estimate of credit losses over the remaining expected life of loans and takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. Management's process and methodology to establish the allowance for loan losses has two basic components: an asset-specific component and a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics. In estimating the component of the allowance for loan losses that shares 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. Management uses a two-dimensional loan rating model that incorporates a scale to identify and track the probability of borrower default and a separate scale addressing loss given default. Probability of default is management's assumption of the probability that a borrower will experience a default and loss given default is management's assumption as to the anticipated principal loss on a specific loan assuming default has occurred. The allowance for loan losses is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan pool by considering the probability of default and the severity of loss.

The principal considerations for our determination that performing procedures relating to the pooled component of the allowance for loan losses is a critical audit matter are (i) the significant judgment by management in developing the estimate of the pooled component of the allowance for loan losses; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence related to management's probability of default and loss given default significant assumptions; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included testing the effectiveness of controls relating to management's allowance for loan losses estimation process, including controls over the probability of default and loss given default significant assumptions. These procedures also included, among others (i) testing management's process for developing the estimate of the pooled component of the allowance for loan losses; (ii) evaluating the appropriateness of the methodology and model; (iii) testing the completeness and accuracy of certain data used in the estimate; and (iv) evaluating the reasonableness of the significant assumptions used by management related to probability of default and loss given default. Professionals with specialized skill and knowledge were used to assist in evaluating (i) the appropriateness of the methodology and model and (ii) the reasonableness of the probability of default and loss given default assumptions.

PricewaterhouseCoopers LLP

Charlotte, North Carolina
March 7, 2024

We have served as the Company's auditor since 1985.

Balance Sheets

(dollars in thousands)	As of December 31, 2023	2022	2021
Assets			
Cash	**$ 655,814**	$ 746,392	$ 625,288
Cash equivalents	**835,000**	350,000	400,000
Investments in debt securities:			
Available-for-sale (amortized cost of $9,532,696, $10,055,933, and $9,295,565, respectively)	**8,639,487**	9,061,750	9,317,572
Held-to-maturity (fair value of $10,924, $13,500, and $21,632, respectively)	**11,150**	14,058	19,133
Total investments in debt securities	**8,650,637**	9,075,808	9,336,705
Loans	**34,326,724**	31,468,732	28,535,682
Allowance for loan losses	**(39,420)**	(26,070)	(20,147)
Net loans	**34,287,304**	31,442,662	28,515,535
Loans held for sale	**29,669**	—	—
Accrued interest receivable	**162,757**	125,349	84,532
Accounts receivable	**90,908**	89,980	110,935
Equity investments in other Farm Credit institutions	**91,887**	88,081	84,922
Premises and equipment, net	**148,391**	122,578	83,891
Other property owned	**260**	—	—
Other assets	**33,195**	31,870	32,746
Total assets	**$ 44,985,822**	$ 42,072,720	$ 39,274,554
Liabilities			
Systemwide bonds payable	**$ 39,197,358**	$ 35,233,552	$ 31,440,802
Systemwide notes payable	**3,486,082**	4,906,369	4,915,969
Accrued interest payable	**237,253**	137,220	40,941
Accounts payable	**333,736**	298,139	525,841
Other liabilities	**48,645**	45,821	48,221
Total liabilities	**43,303,074**	40,621,101	36,971,774
Commitments and contingencies (Note 11)			
Shareholders' Equity			
Perpetual preferred stock	—	—	32,500
Capital stock and participation certificates	**561,527**	300,539	299,131
Additional paid-in-capital	**63,668**	63,668	63,673
Retained earnings			
Allocated	**413**	123,413	416
Unallocated	**1,950,133**	1,957,897	1,888,462
Accumulated other comprehensive (loss) income	**(892,993)**	(993,898)	18,598
Total shareholders' equity	**1,682,748**	1,451,619	2,302,780
Total liabilities and shareholders' equity	**$ 44,985,822**	$ 42,072,720	$ 39,274,554

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

Statements of Comprehensive Income

(dollars in thousands)	For the Year Ended December 31, 2023	2022	2021
Interest Income			
Investments	**$ 323,244**	$ 199,809	$ 131,067
Loans	**1,417,476**	919,416	696,450
Other	**18,767**	5,016	90
Total interest income	**1,759,487**	1,124,241	827,607
Interest Expense	**1,268,161**	518,706	179,209
Net interest income	**491,326**	605,535	648,398
Provision for credit losses	**15,953**	7,704	3,552
Net interest income after provision for credit losses	**475,373**	597,831	644,846
Noninterest Income			
Loan fees	**13,596**	14,034	12,508
Gains on investments, net	**—**	—	330
(Losses) gains on debt extinguishment	**(6,515)**	56	(9,204)
(Losses) gains on other transactions	**(706)**	(1,553)	2,745
Patronage refunds from other Farm Credit institutions	**31,303**	20,595	18,597
Other noninterest income	**8,147**	10,577	8,704
Total noninterest income	**45,825**	43,709	33,680
Noninterest Expenses			
Salaries and employee benefits	**88,347**	79,211	76,604
Occupancy and equipment	**7,302**	7,302	7,080
Insurance Fund premiums	**27,407**	26,979	17,927
Purchased services	**61,020**	57,487	43,231
Data processing	**45,576**	32,520	25,965
Other operating expenses	**26,059**	26,082	21,678
Losses (gains) from other property owned	**167**	(1)	35
Total noninterest expenses	**255,878**	229,580	192,520
Net income	**$ 265,320**	$ 411,960	$ 486,006
Other comprehensive income (loss):			
Unrealized gains (losses) on investments	**100,974**	(1,016,190)	(168,522)
Change in value of cash flow hedges	**—**	(201)	(86)
Employee benefit plans adjustments	**(69)**	3,895	1,344
Other comprehensive income (loss) (Note 7)	**100,905**	(1,012,496)	(167,264)
Comprehensive income (loss)	**$ 366,225**	$ (600,536)	$ 318,742

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

Statements of Changes in Shareholders' Equity

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-In-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2020	$ 49,250	$ 311,859	$ 58,883	$ 416	$ 1,871,594	$ 185,862	$ 2,477,864
Comprehensive income (loss)					486,006	(167,264)	318,742
Redemption of perpetual preferred stock (Note 7)	(16,750)		4,790				(11,960)
Capital stock/participation certificates issued/(retired), net		(16,719)					(16,719)
Stock dividends declared/paid		3,991			(3,991)		—
Dividends paid on perpetual preferred stock					(521)		(521)
Cash patronage distribution					(463,555)		(463,555)
Patronage distribution adjustment					(1,071)		(1,071)
Balance at December 31, 2021	$ 32,500	$ 299,131	$ 63,673	$ 416	$ 1,888,462	$ 18,598	$ 2,302,780
Comprehensive income (loss)					411,960	(1,012,496)	(600,536)
Redemption of perpetual preferred stock (Note 7)	(32,500)		(5)				(32,505)
Capital stock/participation certificates issued/(retired), net		(3,111)					(3,111)
Stock dividends declared/paid		4,519			(4,519)		—
Dividends paid on perpetual preferred stock					(271)		(271)
Patronage distribution							
Cash					(212,874)		(212,874)
Nonqualified allocated retained earnings				123,000	(123,000)		—
Retained earnings retired				(3)			(3)
Patronage distribution adjustment					(1,861)		(1,861)
Balance at December 31, 2022	$ —	$ 300,539	$ 63,668	$ 123,413	$ 1,957,897	$ (993,898)	$ 1,451,619
Cumulative effect of change in accounting principle					**(15,654)**		**(15,654)**
Comprehensive income					**265,320**	**100,905**	**366,225**
Capital stock/participation certificates issued/(retired), net		**132,320**					**132,320**
Stock dividends declared/paid		**5,668**			**(5,668)**		**—**
Cash patronage distribution					**(251,198)**		**(251,198)**
Redesignation of allocated surplus		**123,000**		**(123,000)**			**—**
Patronage distribution adjustment					**(564)**		**(564)**
Balance at December 31, 2023	**$ —**	**$ 561,527**	**$ 63,668**	**$ 413**	**$ 1,950,133**	**$ (892,993)**	**$ 1,682,748**

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

Statements of Cash Flows

(dollars in thousands)	For the Year Ended December 31, 2023	2022	2021
Cash flows from operating activities:			
Net income	**$ 265,320**	$ 411,960	$ 486,006
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on premises and equipment	**24,426**	16,883	13,588
Amortization of net deferred loan costs and premium amortization	**(2,973)**	1,473	7,792
Premium amortization on investment securities	**(1,337)**	7,347	20,965
Discount accretion on bonds and notes	**204,583**	81,597	17,154
Provision for allowance for credit losses	**15,953**	7,704	3,552
Gains on other property owned, net	**—**	(1)	(19)
Gains on investments, net	**—**	—	(330)
Losses (gains) on debt extinguishment	**6,515**	(56)	9,204
Losses (gains) on other transactions	**706**	1,553	(2,745)
Net change in loans held for sale	**(29,638)**	—	(1)
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(37,408)**	(40,817)	(2,968)
(Increase) decrease in accounts receivable	**(928)**	20,955	34,365
Increase in accrued interest payable	**100,033**	96,279	13,844
Increase in accounts payable	**2,042**	22,980	24,090
Change in other, net	**(2,011)**	711	4,255
Total adjustments	**279,963**	216,608	142,746
Net cash provided by operating activities	**545,283**	628,568	628,752
Cash flows from investing activities:			
Investment securities purchased	**(889,064)**	(2,890,220)	(3,784,464)
Proceeds from maturities and prepayments of investment securities	**1,416,546**	2,127,379	2,729,720
Proceeds from sales of investment securities	**—**	—	44,224
Net increase in loans	**(2,870,995)**	(2,936,304)	(2,320,539)
Increase in equity investments in other Farm Credit System institutions	**(3,806)**	(3,159)	(4,275)
Purchase of premises, software and equipment, net	**(50,256)**	(55,553)	(36,165)
Proceeds from sale of premises and equipment	**180**	90	239
Proceeds from sale of other property owned	**—**	1	411
Net cash used in investing activities	**(2,397,395)**	(3,757,766)	(3,370,849)
Cash flows from financing activities:			
Bonds and notes issued	**24,772,771**	21,491,609	27,009,200
Bonds and notes retired	**(22,440,350)**	(17,790,000)	(24,035,000)
Redemption of perpetual preferred stock	**—**	(32,505)	(11,960)
Capital stock and participation certificates issued/retired, net	**132,320**	(3,111)	(16,719)
Distribution to shareholders	**(218,207)**	(465,417)	(391,300)
Dividends paid on perpetual preferred stock	**—**	(271)	(521)
Retained earnings retired	**—**	(3)	—
Net cash provided by financing activities	**2,246,534**	3,200,302	2,553,700
Net increase (decrease) in cash and cash equivalents	**394,422**	71,104	(188,397)
Cash and cash equivalents, beginning of period	**1,096,392**	1,025,288	1,213,685
Cash and cash equivalents, end of period	**$ 1,490,814**	$ 1,096,392	$ 1,025,288
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ 260**	$ —	$ 392
Change in unrealized gains (losses) on investments, net	**100,974**	(1,016,190)	(168,522)
Cumulative effect of a change in accounting principle	**(15,654)**	—	—
Change in value of cash flow hedges	**—**	(201)	(86)
Employee benefit plans adjustments	**69**	(3,895)	(1,344)
Distribution of nonqualified unallocated retained earnings	**—**	(123,000)	—
Redesignation of allocated surplus	**123,000**	—	—
Supplemental information:			
Interest paid	**$ 963,546**	$ 340,830	$ 148,211

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

Notes to the Financial Statements

Note 1 — Organization and Operations

Organization: AgFirst Farm Credit Bank (the Bank or AgFirst) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers. The Bank is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of Ohio, Tennessee, Kentucky, and Louisiana.

AgFirst is a lending institution in the Farm Credit System (the System), a nationwide network of cooperatively owned banks, associations and related service organizations. The System was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (the 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. The System Banks obtain a substantial majority of the funds for their lending operations through the sale of consolidated Systemwide bonds and notes to the public, but may also obtain a portion from internally generated earnings, the issuance of common and preferred stock and, to a lesser extent, the issuance of subordinated debt.

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 and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst during the periods presented. As of year-end, the AgFirst District consisted of the Bank and sixteen District Associations. All sixteen were structured as ACA holding companies, with PCA and FLCA subsidiaries.

Following approval by AgFirst, the FCA, and shareholders, effective January 1, 2023, Cape Fear Farm Credit, ACA merged with and into AgCarolina Farm Credit, ACA. Combined total assets for the merged Association were $2.7 billion as of December 31, 2023.

Following approval by AgFirst, the FCA, and shareholders, effective April 1, 2023, Carolina Farm Credit, ACA merged with and into AgSouth Farm Credit, ACA. Combined total assets for the merged entity were $4.3 billion as of December 31, 2023.

The merger activities listed above have not and are not expected to have a material impact on the Bank's Balance Sheet and Results of Operations.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (FCSIC) 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 FCSIC to provide assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System Bank has been required to pay premiums, which may be passed on to the Associations, into the Insurance Fund until the assets in the 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 FCSIC at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC 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.

Premiums are charged based upon each System Bank's pro rata share of outstanding Insured Debt. Premiums of up to 20 basis points on average adjusted Insured Debt obligations can be assessed along with a risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments. The premium rate was 18 basis points in 2023, 20 basis points in 2022, and 16 basis points for 2021. The premium rate will be 10 basis points for at least the first half of 2024.

AgFirst, in conjunction with other System Banks, jointly owns organizations that were created to provide a variety of services for the System:

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) – provides for the issuance and marketing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial accounting and reporting services.
- FCS Building Association – leases premises and equipment to the FCA.
- Farm Credit System Association Captive Insurance Company – being a reciprocal insurer, provides insurance services to its member organizations.

In addition, the Farm Credit Council acts as a full-service federated trade association which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

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

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

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a lending agreement between the Bank and each 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' interest rate risk is primarily transferred to the Bank.

In addition to providing loan funds, 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 interest charges to the Associations, or in some cases billed directly to certain Associations that use a specific service.

The Bank is also authorized to provide, in participation with other lenders and the secondary market, 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 Bank may also lend to OFIs qualified to engage in lending to eligible borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Bank conform to 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 the management of the Bank to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying Financial Statements include the accounts of the Bank, and reflect the investments in and allocated earnings of the service organizations in which the Bank has partial ownership interests.

Certain amounts in the prior year financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

A. **Accounting Standards Effective During the Period:** The Bank 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 previous 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 ACL 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 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 update also requires disclosure of current period gross write-offs by year of origination for financing receivables and net investments in leases on a prospective basis.

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

(dollars in thousands)	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for loan losses	$ 26,070	$ 12,162	$ 38,232
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 1,497	$ 3,492	$ 4,989
Retained Earnings:			
Unallocated retained earnings	$ 1,957,897	$ (15,654)	$ 1,942,243

B. **Cash and Cash Equivalents:** Cash and Cash Equivalents include cash on hand and short-term investments with original maturities of three months or less. This includes reverse repurchase agreements where funds are sold overnight and returned to the Bank the following business day and return interest overnight. Such investments are recorded at fair value which is generally their face value. At the most recent year-end, the Bank held $466.7 million in cash in excess of insured amounts.

C. **Loans and Allowance for Credit Losses:** The loan portfolios include originated wholesale loans (i.e. Direct Notes), purchased capital markets loans, and purchased rural residential mortgage loans.

Long-term real estate mortgage loans generally have original maturities up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at amortized cost, including adjustments for charge-offs, premiums, discounts, deferred loan fees or costs, and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount is deferred as part of the carrying amount of the loan and the net difference is amortized over the life of the related loan as an adjustment to interest income using the 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 Bank 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 Balance Sheets. The Bank 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 Bank 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
- the allowance for credit losses on unfunded commitments, which is presented on the Balance Sheets in Other Liabilities, and
- the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Balance Sheets.

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

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

The Bank 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 Bank'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 allowance for loan losses.

In estimating the component of the allowance for loan losses that shares 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 pool 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 Bank's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Bank uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point 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 management's assumption of the probability that a borrower will experience a default during the life of the loan. 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 assumption as to the anticipated principal loss on a specific loan assuming default has occurred during the remaining life of the loan. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship. The Bank reviews, at least on an annual basis, or when a credit action is taken, the probability of default category.

Each of the ratings carries a distinct percentage of default probability. The 14-point 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 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:

a. lending policies and procedures;
b. national, regional and local economic business conditions and developments that affect the collectability of the portfolio, including the condition of various markets;
c. the nature of the loan portfolio, including the terms of the loans;
d. the experience, ability and depth of the lending management and other relevant staff;
e. the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans;
f. the quality of the loan review and process;
g. the value of underlying collateral for collateral-dependent loans;
h. the existence and effect of any concentrations of credit and changes in the level of such concentrations; and
i. 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 Bank's macroeconomic forecast includes a weighted selection of the Moody's baseline, upside 10th percent and downside 90th percent scenarios over a reasonable and supportable forecast period of three years. Subsequent to the forecast period of three years, the Bank reverts to long run historical loss experience over 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 are updated on a quarterly basis. These economic forecasts include, but are not limited to, 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 Bank 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 Bank 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 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 Bank 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 by the Bank.

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 market.

Generally, only home loans that are to be sold on the secondary mortgage market through various lenders or into a securitization are held for sale.

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 Losses/Gains from Other Property Owned in the Statements of Comprehensive Income.

F. **Premises and Equipment:** Land is carried at cost. Premises and equipment, including software, are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Computer software and hardware are amortized over 3 to 10 years. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements that extend the useful life of the asset 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 Bank holds investments and investment securities 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 Bank holds certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded in the Balance Sheets as securities on the trade date.

Securities for which the Bank 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.

Other Investments
As discussed in Note 8, *Fair Value Measurement*, 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 Statements of Comprehensive Income and the balance of these investments is included in Other Assets on the accompanying 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 Bank determined that no allowance for credit losses on investments was necessary. The Bank 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 equity investments in other Farm Credit institutions are generally recorded as patronage income and included in Noninterest Income.

H. **Debt:** Any discount or premium resulting from cash or noncash debt transactions is not an asset or liability separable from the instrument that gives rise to it. Therefore, the discount or premium is reported in the Balance Sheet as a direct deduction from or addition to the face amount of the note. Direct expenses incurred in issuing debt and mandatorily redeemable preferred stock are deferred and amortized using the interest method over the contractual term of the related indebtedness or mandatorily redeemable preferred stock. Debt issuance costs are presented in the Balance Sheets as a direct deduction from the carrying amount of the respective debt liability. All amortization and accretion of reductions or additions to the face amount of debt instruments is reported in Interest Expense.

The Bank issues both callable and noncallable debt instruments. A call feature is an agreement, stated in a financial instrument's terms, detailing how an issuance may be retired fully, or in part, before its contractual maturity date. The first call option date, and whether the instrument is continuously callable, or callable only on certain dates, is also explicitly stated. When a call option is exercised, it is accounted for as an extinguishment of debt. Any difference between the reacquisition price and the net carrying amount of the extinguished debt is recognized as losses or gains in current period earnings. Gains and losses are not amortized to future periods.

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

Defined Contribution Plans
Substantially all employees are eligible to participate in a defined contribution 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. Employer contributions to the plan are expensed as funded.

The Bank also offers a Farm Credit Benefits Alliance (FCBA) supplemental 401(k) plan for certain key employees. This plan is nonqualified. Employer contributions to the plan are expensed as funded.

Additional information may be found in Note 9, *Employee Benefit Plans*.

Multiemployer Defined Benefit Plans
Certain employees may participate in one or more defined benefit plans. The Plans are noncontributory and include eligible Bank and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

The Bank provides certain health care and life insurance benefits for retired employees (Other Postretirement Benefits) through a retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Bank. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits. This Other Postretirement Benefits plan is unfunded with expenses paid as incurred.

Since the foregoing plans are multiemployer, the Bank does not apply the provisions of Financial Accounting Standards Board (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, *Employee Benefit Plans*, and in the Notes to the Annual Information Statement of the Farm Credit System.

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

The foregoing defined benefit plan is considered single employer, therefore the Bank applies the provisions of FASB guidance on employers' accounting for defined benefit pension plans in its stand-alone financial statements.

Additional information may be found in Note 9, *Employee Benefit Plans*.

J. **Income Taxes:** The Bank is exempt from federal and other income taxes as provided in the Farm Credit Act.

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

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Level 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter 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 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

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

The Bank may use 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.

Any transfers between fair value levels occur at the end of the period.

Additional information may be found in Note 8, *Fair Value Measurement*.

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

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

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

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

Financial Instruments
The largest source of revenue for the Bank is interest income. Interest income is recognized on an accrual basis governed by 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.

Contracts with Customers
The Bank maintains contracts with customers, primarily other System entities, 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 Bank maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. The Bank 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 Bank 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 expense. These gains and losses are recognized, and the nonfinancial asset is derecognized, when the Bank has entered into a valid contract and transferred control of the asset. If the criteria to meet the definition of a contract have not been met, the Bank does not derecognize the nonfinancial asset and any consideration received is recognized as a liability. If the criteria for a contract are subsequently met, or if the consideration received is or becomes nonrefundable, a gain or loss may be recognized at that time.

N. **Leases:** A contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration is generally considered a lease. In the course of normal operations, the Bank may enter into leases for various business purposes.

Lessee
Contracts entered into are evaluated at inception to determine if they contain a lease. Assets and liabilities are recognized on the 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.

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

Lessor
The Bank acts as lessor in certain contractual arrangements. The contracts 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 in the 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 Balance Sheets and Other Noninterest Income in the Statements of Comprehensive Income.

O. **Accounting Standards Updates (ASUs):** In November 2023, the FASB issued ASU 2023-07 - Segment Reporting: Improvements to Reportable Segment Disclosures. The standard requires a public entity to disclose, on an annual and interim basis, the following:

- significant segment expenses that are readily provided to the chief operating decision maker (“CODM”) and included in segment profit or loss,
- composition and aggregate amount of other segment items, which represent the difference between profit or loss and segment revenues less significant segment expenses,
- the title and position of the CODM, and
- an explanation of how the CODM uses the reported segment measures in assessing segment performance and deciding how to allocate resources.

Even if a public entity has a single reportable segment, it is required to provide all disclosures set forth in the standard and all existing segment disclosures. The amendments in the standard are to be applied retrospectively to all prior periods presented and are effective for fiscal years beginning after December 31, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Bank is currently assessing the potential impact of this standard on its disclosures.

Note 3 — Loans and Allowance for Credit Losses

For a description of the Bank’s accounting for loans, including nonaccrual loans, and the allowance for loan losses, see Note 2, *Summary of Significant Accounting Policie*s, subsection C, *Loans and Allowance for Credit Losses*, above.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank 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 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). See further discussion in Note 2, *Summary of Significant Accounting Policies*, subsection C, *Loans and Allowance for Credit Losses*, above.

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

- Direct Notes and loans to OFIs — revolving lines of credit provided to financing institutions to fund the lending needs of their borrowers.
- 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 follows:

	December 31,		
(dollars in thousands)	**2023**	**2022**	**2021**
Direct Notes	$ 23,151,310	$ 21,217,281	$ 19,739,633
Real estate mortgage	1,149,186	1,163,090	1,153,729
Production and intermediate-term	1,389,873	1,245,308	1,032,288
Agribusiness:			
Loans to cooperatives	556,928	574,334	527,118
Processing and marketing	2,001,088	1,932,474	1,680,782
Farm-related business	101,562	127,789	79,888
Rural infrastructure:			
Communication	794,993	680,224	545,699
Power and water/waste disposal	1,729,869	1,208,373	748,563
Rural residential real estate	3,172,405	3,044,026	2,784,761
Other:			
International	106,454	104,238	76,739
Lease receivables	356	388	2,273
Loans to OFIs	167,962	166,260	159,061
Other (including Mission Related)	4,738	4,947	5,148
Total loans	$ 34,326,724	$ 31,468,732	$ 28,535,682

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations. As described in Note 1, *Organization and Operations*, these notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore, the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to multiple borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly, which further mitigates credit risk to the Bank. In addition, the allowance for loan losses is maintained to provide for current expected credit losses within the loan portfolio. See further discussion in *Note 2, Summary of Significant Accounting Policies*, subsection C, *Loans and Allowance for Credit Losses*.

The Bank may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. During 2023, 2022, and 2021 the Bank purchased $426.4 million, $604.1 million, and $629.0 million, respectively, of residential mortgage loans from various System associations and sold $35.1 million, $1.8 million, and $5.4 million, respectively, from the portfolio. These amounts are not included in the table below. The following tables present the principal balance of participation loans at periods ended:

	December 31, 2023					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct Notes	$ —	$ 1,476,038	$ —	$ —	$ —	$ 1,476,038
Real estate mortgage	1,567,652	519,069	10,267	14,375	1,577,919	533,444
Production and intermediate-term	2,694,152	1,525,836	233,495	16,547	2,927,647	1,542,383
Agribusiness	2,280,281	1,500,646	1,885,517	—	4,165,798	1,500,646
Rural infrastructure	3,104,937	575,717	—	—	3,104,937	575,717
Other	181,575	69,754	—	—	181,575	69,754
Total	$ 9,828,597	$ 5,667,060	$ 2,129,279	$ 30,922	$ 11,957,876	$ 5,697,982

	December 31, 2022					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct Notes	$ —	$ 1,329,542	$ —	$ —	$ —	$ 1,329,542
Real estate mortgage	1,605,583	543,144	8,786	12,187	1,614,369	555,331
Production and intermediate-term	2,524,995	1,473,253	212,096	16,625	2,737,091	1,489,878
Agribusiness	2,230,008	1,335,136	1,744,876	—	3,974,884	1,335,136
Rural infrastructure	2,212,262	319,804	—	—	2,212,262	319,804
Other	167,149	57,322	—	—	167,149	57,322
Total	$ 8,739,997	$ 5,058,201	$ 1,965,758	$ 28,812	$ 10,705,755	$ 5,087,013

	December 31, 2021					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct Notes	$ —	$ 1,207,458	$ —	$ —	$ —	$ 1,207,458
Real estate mortgage	1,512,116	486,975	9,167	—	1,521,283	486,975
Production and intermediate-term	1,537,544	666,237	163,456	—	1,701,000	666,237
Agribusiness	2,055,656	971,591	1,231,307	23,209	3,286,963	994,800
Rural infrastructure	1,449,209	152,137	—	—	1,449,209	152,137
Other	121,837	37,465	—	—	121,837	37,465
Total	$ 6,676,362	$ 3,521,863	$ 1,403,930	$ 23,209	$ 8,080,292	$ 3,545,072

Loan Quality

Each loan in the District's portfolio is classified according to a Uniform Classification System, which is used by all System institutions. Below are the classification definitions:

- Acceptable – Assets are expected to be fully collectible and represent the highest quality. In addition, these assets may include loans with properly executed and structured guarantees that might otherwise be classified less favorably.
- 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 shows the amortized cost of loans classified under the Uniform Loan Classification System by origination year at December 31, 2023:

	Term Loans Amortized Cost by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2023	2022	2021	2020	2019	Prior		
Direct Notes								
Acceptable	$ —	$ —	$ —	$ —	$ —	$ —	$ 23,032,728	$ 23,032,728
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful/Loss	—	—	—	—	—	—	118,582	118,582
Total	$ —	$ —	$ —	$ —	$ —	$ —	$ 23,151,310	$ 23,151,310
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate mortgage								
Acceptable	$ 114,494	$ 186,831	$ 251,343	$ 103,023	$ 101,316	$ 325,190	$ 30,080	$ 1,112,277
OAEM	5,015	227	286	—	—	2,198	1	7,727
Substandard/Doubtful/Loss	182	20,342	—	—	—	3,853	4,805	29,182
Total	$ 119,691	$ 207,400	$ 251,629	$ 103,023	$ 101,316	$ 331,241	$ 34,886	$ 1,149,186
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 15	$ —	$ 15
Production and intermediate-term								
Acceptable	$ 193,650	$ 198,817	$ 62,944	$ 60,004	$ 33,610	$ 109,128	$ 698,143	$ 1,356,296
OAEM	1,612	237	44	—	15	46	6,009	7,963
Substandard/Doubtful/Loss	5,499	6,753	—	263	7,103	—	5,996	25,614
Total	$ 200,761	$ 205,807	$ 62,988	$ 60,267	$ 40,728	$ 109,174	$ 710,148	$ 1,389,873
Current period gross charge-offs	$ —	$ 2,967	$ —	$ —	$ 9,791	$ —	$ 2,149	$ 14,907
Agribusiness								
Acceptable	$ 321,533	$ 437,425	$ 324,583	$ 111,451	$ 122,394	$ 355,152	$ 857,445	$ 2,529,983
OAEM	—	23,081	21,195	105	—	—	13,717	58,098
Substandard/Doubtful/Loss	4,402	—	—	19,928	4,424	—	42,743	71,497
Total	$ 325,935	$ 460,506	$ 345,778	$ 131,484	$ 126,818	$ 355,152	$ 913,905	$ 2,659,578
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Rural infrastructure								
Acceptable	$ 685,153	$ 591,662	$ 418,882	$ 198,116	$ 154,184	$ 248,696	$ 162,455	$ 2,459,148
OAEM	17,542	—	—	37,434	—	6,047	2,624	63,647
Substandard/Doubtful/Loss	2,067	—	—	—	—	—	—	2,067
Total	$ 704,762	$ 591,662	$ 418,882	$ 235,550	$ 154,184	$ 254,743	$ 165,079	$ 2,524,862
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ 701	$ 701
Rural residential real estate								
Acceptable	$ 331,556	$ 636,568	$ 497,951	$ 335,076	$ 217,270	$ 1,134,017	$ —	$ 3,152,438
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful/Loss	—	2,163	2,755	931	1,721	12,397	—	19,967
Total	$ 331,556	$ 638,731	$ 500,706	$ 336,007	$ 218,991	$ 1,146,414	$ —	$ 3,172,405
Current period gross charge-offs	$ —	$ —	$ 46	$ 15	$ —	$ 213	$ —	$ 274
Other								
Acceptable	$ 58,322	$ 16,883	$ 16,664	$ —	$ —	$ 19,674	$ 167,967	$ 279,510
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful/Loss	—	—	—	—	—	—	—	—
Total	$ 58,322	$ 16,883	$ 16,664	$ —	$ —	$ 19,674	$ 167,967	$ 279,510
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total Loans								
Acceptable	$ 1,704,708	$ 2,068,186	$ 1,572,367	$ 807,670	$ 628,774	$ 2,191,857	$ 24,948,818	$ 33,922,380
OAEM	24,169	23,545	21,525	37,539	15	8,291	22,351	137,435
Substandard/Doubtful/Loss	12,150	29,258	2,755	21,122	13,248	16,250	172,126	266,909
Total	$ 1,741,027	$ 2,120,989	$ 1,596,647	$ 866,331	$ 642,037	$ 2,216,398	$ 25,143,295	$ 34,326,724
Current period gross charge-offs	$ —	$ 2,967	$ 46	$ 15	$ 9,791	$ 228	$ 2,850	$ 15,897

The following table shows loans, including accrued interest, under the Farm Credit Administration Uniform Loan Classification System by loan type as of December 31, 2022, prior to the adoption of CECL:

(dollars in thousands)	December 31, 2022							
	Direct Notes	Real estate mortgage	Production and intermediate-term	Agribusiness	Rural infrastructure	Rural residential real estate	Other	Total
Acceptable	$ 21,274,539	$ 1,156,016	$ 1,197,236	$ 2,585,812	$ 1,887,320	$ 3,035,212	$ 277,266	$ 31,413,401
OAEM	—	12,729	16,640	28,043	—	—	—	57,412
Substandard/Doubtful/Loss	—	2,984	37,576	31,028	5,870	15,554	—	93,012
Total	$ 21,274,539	$ 1,171,729	$ 1,251,452	$ 2,644,883	$ 1,893,190	$ 3,050,766	$ 277,266	$ 31,563,825

(dollars in thousands)	December 31, 2021							
	Direct Notes	Real estate mortgage	Production and intermediate-term	Agribusiness	Rural infrastructure	Rural residential real estate	Other	Total
Acceptable	$ 19,778,813	$ 1,123,830	$ 987,394	$ 2,246,040	$ 1,285,364	$ 2,775,842	$ 243,953	$ 28,441,236
OAEM	—	31,075	24,197	40,889	—	—	—	96,161
Substandard/Doubtful/Loss	—	4,961	24,095	5,365	10,980	15,124	—	60,525
Total	$ 19,778,813	$ 1,159,866	$ 1,035,686	$ 2,292,294	$ 1,296,344	$ 2,790,966	$ 243,953	$ 28,597,922

Accrued interest receivable on loans of $132.4 million, $95.1 million, and $62.2 million at December 31, 2023, 2022, and 2021, respectively, have been excluded from the amortized cost of loans and reported separately in the Balance Sheets.

The following tables provide an aging analysis of past due loans at amortized cost by portfolio segment as of:

(dollars in thousands)	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	Accruing Loans 90 Days or More Past Due
Direct Notes	$ —	$ —	$ —	$ 23,151,310	$ 23,151,310	$ —
Real estate mortgage	12,322	625	12,947	1,136,239	1,149,186	—
Production and intermediate-term	3,008	7,390	10,398	1,379,475	1,389,873	—
Agribusiness	587	—	587	2,658,991	2,659,578	—
Rural infrastructure	—	—	—	2,524,862	2,524,862	—
Rural residential real estate	56,551	10,129	66,680	3,105,725	3,172,405	—
Other	—	—	—	279,510	279,510	—
Total	$ 72,468	$ 18,144	$ 90,612	$ 34,236,112	$ 34,326,724	$ —

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

(dollars in thousands)	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	Accruing Loans 90 Days or More Past Due
Direct Notes	$ —	$ —	$ —	$ 21,274,539	$ 21,274,539	$ —
Real estate mortgage	2,156	90	2,246	1,169,483	1,171,729	—
Production and intermediate-term	8,129	3,912	12,041	1,239,411	1,251,452	—
Agribusiness	—	—	—	2,644,883	2,644,883	—
Rural infrastructure	—	—	—	1,893,190	1,893,190	—
Rural residential real estate	39,066	9,958	49,024	3,001,742	3,050,766	1,586
Other	—	—	—	277,266	277,266	—
Total	$ 49,351	$ 13,960	$ 63,311	$ 31,500,514	$ 31,563,825	$ 1,586

(dollars in thousands)	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	Accruing Loans 90 Days or More Past Due
Direct Notes	$ —	$ —	$ —	$ 19,778,813	$ 19,778,813	$ —
Real estate mortgage	1,643	—	1,643	1,158,223	1,159,866	—
Production and intermediate-term	—	—	—	1,035,686	1,035,686	—
Agribusiness	—	—	—	2,292,294	2,292,294	—
Rural infrastructure	55,251	10,980	66,231	1,230,113	1,296,344	—
Rural residential real estate	25,945	11,828	37,773	2,753,193	2,790,966	5,781
Other	—	—	—	243,953	243,953	—
Total	$ 82,839	$ 22,808	$ 105,647	$ 28,492,275	$ 28,597,922	$ 5,781

The following table reflects nonperforming assets and related credit quality statistics. Prior to the adoption of CECL on January 1, 2023, nonperforming loans were included with accrued interest and included accruing restructured loans as shown in the following table:

(dollars in thousands)	December 31, 2023	2022	2021
Nonaccrual loans:			
Real Estate Mortgage	$ 3,083	$ 3,390	$ 1,537
Production and Intermediate-Term	16,864	13,552	—
Agribusiness	—	—	5,365
Rural infrastructure	2,067	2,966	10,980
Rural Residential Real Estate	22,067	17,210	17,297
Other	—	—	—
Total	$ 44,081	$ 37,118	$ 35,179
Accruing restructured loans:			
Real Estate Mortgage		$ 572	$ 1,050
Production and Intermediate-Term		828	1,257
Agribusiness		10,828	—
Rural Residential Real Estate		27,611	19,106
Other		3,547	3,687
Total		$ 43,386	$ 25,100
Accruing loans 90 days or more past due:			
Rural Residential Real Estate	$ —	$ 1,586	$ 5,781
Total	$ —	$ 1,586	$ 5,781
Total nonperforming loans	$ 44,081	$ 82,090	$ 66,060
Other property owned	260	—	—
Total nonperforming assets	$ 44,341	$ 82,090	$ 66,060
Nonaccrual loans as a percentage of total loans	0.13 %	0.12 %	0.12 %
Nonperforming assets as a percentage of total loans and other property owned	0.13 %	0.26 %	0.23 %
Nonperforming assets as a percentage of capital	2.64 %	5.66 %	2.87 %

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

Nonaccrual loans:	December 31, 2023 Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Year Ended December 31, 2023 Interest Income Recognized
Real estate mortgage	$ —	$ 3,083	$ 3,083	$ 13
Production and intermediate-term	9,601	7,263	16,864	102
Rural infrastructure	2,067	—	2,067	—
Rural residential real estate	1,786	20,281	22,067	778
Total	$ 13,454	$ 30,627	$ 44,081	$ 893

Effective January 1, 2023, the System 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:

(dollars in thousands)	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	$ 1,421	$ 6,757	$ 8,212	$ 2,945	$ 6,194	$ 541	$ 26,070
Cumulative effect of a change in accounting principle	51	(1,308)	1,135	(403)	13,180	(493)	12,162
Balance at January 1, 2023	$ 1,472	$ 5,449	$ 9,347	$ 2,542	$ 19,374	$ 48	$ 38,232
Charge-offs	(15)	(14,907)	—	(701)	(274)	—	(15,897)
Recoveries	—	—	—	41	141	—	182
Provision for (reversal of) loan losses	545	15,352	(436)	1,958	(483)	(33)	16,903
Balance at December 31, 2023	$ 2,002	$ 5,894	$ 8,911	$ 3,840	$ 18,758	$ 15	$ 39,420
Allowance for unfunded commitments:							
Balance at December 31, 2022	$ —	$ 128	$ 1,338	$ 31	$ —	$ —	$ 1,497
Cumulative effect of a change in accounting principle	28	654	2,365	404	—	41	3,492
Balance at January 1, 2023	$ 28	$ 782	$ 3,703	$ 435	$ —	$ 41	$ 4,989
Provision for (reversal of) unfunded commitments	—	(50)	(841)	(61)	—	2	(950)
Balance at December 31, 2023	$ 28	$ 732	$ 2,862	$ 374	$ —	$ 43	$ 4,039
Total allowance for credit losses	$ 2,030	$ 6,626	$ 11,773	$ 4,214	$ 18,758	$ 58	$ 43,459
Balance at December 31, 2021	$ 1,513	$ 3,583	$ 5,532	$ 3,848	$ 5,149	$ 522	$ 20,147
Charge-offs	(13)	(10)	—	(864)	(1,279)	—	(2,166)
Recoveries	—	—	—	—	385	—	385
Provision for (reversal of) loan losses	(79)	3,184	2,680	(39)	1,939	19	7,704
Balance at December 31, 2022	$ 1,421	$ 6,757	$ 8,212	$ 2,945	$ 6,194	$ 541	$ 26,070
Balance at December 31, 2020	$ 1,551	$ 3,289	$ 4,553	$ 1,947	$ 6,394	$ 523	$ 18,257
Charge-offs	—	—	—	—	(1,881)	—	(1,881)
Recoveries	—	21	—	—	198	—	219
Provision for (reversal of) loan losses	(38)	273	979	1,901	438	(1)	3,552
Balance at December 31, 2021	$ 1,513	$ 3,583	$ 5,532	$ 3,848	$ 5,149	$ 522	$ 20,147

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

There was no allowance for credit loss for the Direct Note portfolio for any of the periods presented.

To mitigate risk of loan losses, the Bank and Associations may enter into guarantee arrangements with certain government-sponsored enterprises (GSEs), including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Bank or 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 $2.6 billion, $2.7 billion, and $2.7 billion at December 31, 2023, 2022, and 2021, respectively. Fees paid for such guarantee commitments totaled $2.9 million, $3.0 million, and $3.4 million for 2023, 2022, and 2021, respectively. These amounts are classified as noninterest expense.

Loan Modifications to Borrowers Experiencing Financial Difficulty

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.

The following tables present the amortized cost basis at the end of the reporting period for loan modifications granted to borrowers experiencing financial difficulty during the year ended December 31, 2023, disaggregated by loan type and type of modification granted:

	For the Year Ended December 31, 2023			
(dollars in thousands)	Interest Rate Reduction	Term or Payment Extension	Total	Percentage of Total by Loan Type
Real estate mortgage	$ —	$ 77	$ 77	0.01 %
Production and intermediate-term	—	2,945	2,945	0.21 %
Agribusiness	6,892	17,720	24,612	0.93 %
Rural residential real estate	—	5,890	5,890	0.19 %
Total	$ 6,892	$ 26,632	$ 33,524	0.10 %

The following table describes the financial effects of the modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2023:

	Interest Rate Reduction
	Financial Effect
Agribusiness	Reduced weighted average contractual interest rate from 10.95% to 8.95%

	Term or Payment Extension
	Financial Effect
Real estate mortgage	Added a weighted average 1.2 years to the life of loans
Production and intermediate-term	Added a weighted average 2.3 years to the life of loans
Agribusiness	Added a weighted average 0.7 years to the life of loans
Rural infrastructure	Added a weighted average 1.1 years to the life of loans
Rural residential real estate	Added a weighted average 8.4 years to the life of loans

The following table sets forth the amortized cost of loans to borrowers experiencing financial difficulty that received a modification on or after January 1, 2023, the date of adoption of CECL, through December 31, 2023 and that defaulted in the period presented:

	For the Year Ended December 31, 2023
(dollars in thousands)	Term or Payment Extension
Rural residential real estate	$ 3,028
Total	$ 3,028

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified on or after January 1, 2023 through December 31, 2023

(dollars in thousands)	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Real estate mortgage	$ 77	$ —	$ —	$ 77
Production and intermediate-term	2,945	—	—	2,945
Agribusiness	24,612	—	—	24,612
Rural residential real estate	4,146	1,744	—	5,890
Total	$ 31,780	$ 1,744	$ —	$ 33,524

Accrued interest receivable at the end of the reporting period related to loan modifications granted to borrowers experiencing financial difficulty during the year ended December 31, 2023 was $214 thousand. Additional commitments to lend to borrowers experiencing financial difficulties whose loans have been modified were $16.2 million at December 31, 2023.

Troubled Debt Restructurings

Prior to the adoption of CECL 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 table presents additional information regarding troubled debt restructurings that occurred during the period:

(dollars in thousands)	Year Ended December 31, 2022				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ —	$ 471	$ —	$ 471	
Production and intermediate-term	2,292	11,603	—	13,895	
Agribusiness	—	11,045	—	11,045	
Rural residential real estate	13,141	3,573	—	16,714	
Total	$ 15,433	$ 26,692	$ —	$ 42,125	
Post-modification:					
Real estate mortgage	$ —	$ 471	$ —	$ 471	$ —
Production and intermediate-term	2,292	11,603	—	13,895	—
Agribusiness	—	11,045	—	11,045	—
Rural residential real estate	14,423	3,899	—	18,322	(1,244)
Total	$ 16,715	$ 27,018	$ —	$ 43,733	$ (1,244)

(dollars in thousands)	Year Ended December 31, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 644	$ 698	$ —	$ 1,342	
Rural residential real estate	20,769	—	—	20,769	
Total	$ 21,413	$ 698	$ —	$ 22,111	
Post-modification:					
Real estate mortgage	$ 651	$ 698	$ —	$ 1,349	$ —
Rural residential real estate	22,328	—	—	22,328	(1,344)
Total	$ 22,979	$ 698	$ —	$ 23,677	$ (1,344)

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.

	December 31,	
(dollars in thousands)	**2022**	**2021**
Defaulted troubled debt restructurings:		
Real estate mortgage	$ —	$ 605
Production and intermediate-term	4,891	—
Rural residential real estate	6,170	1,675
Total	$ 11,061	$ 2,280

The following table provides information at each period end on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table:

	Total TDRs		Nonaccrual TDRs	
	December 31,		December 31,	
(dollars in thousands)	**2022**	**2021**	**2022**	**2021**
Real estate mortgage	$ 1,000	$ 1,231	$ 428	$ 181
Production and intermediate-term	6,172	1,257	5,344	—
Agribusiness	10,828	—	—	—
Rural residential real estate	32,271	23,491	4,660	4,385
Other	3,547	3,687	—	—
Total	$ 53,818	$ 29,666	$ 10,432	$ 4,566
Additional commitments to lend	$ —	$ —		

Note 4 — Investments

Equity Investments in Other Farm Credit System 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.

Investments in Debt Securities
The Bank's investments in debt securities consist primarily of mortgage-backed securities (MBSs) collateralized by U.S. government or U.S. agency guaranteed residential and commercial mortgages. Also included are asset-backed securities (ABSs) which are issued through the Small Business Administration and are guaranteed by the full faith and credit of the U.S. government. They are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

Non-agency ABSs are included in AFS investments. These securities must meet the applicable FCA regulatory guidelines, which require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, priority of payments for senior classes over junior classes, or bond insurance. All of the non-agency securities owned have one or more credit enhancement features.

HTM investments in debt securities consist primarily of Mission Related Investments acquired primarily under the Rural America Bond (RAB) pilot programs. RABs are private placement securities which generally have some form of credit enhancement.

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. At December 31, 2023, the Bank held $41.3 million in U.S. Treasury securities for that purpose. The remainder of the compensating balance is held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments at each period end follows:

	December 31, 2023				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	$ 42,385	$ —	$ (1,068)	$ 41,317	1.61 %
U.S. Govt. Guaranteed	4,105,757	1,292	(480,587)	3,626,462	2.70
U.S. Govt. Agency Guaranteed	4,700,716	1,325	(412,483)	4,289,558	3.50
Non-Agency ABSs	683,838	1,506	(3,194)	682,150	5.02
Total	$ 9,532,696	$ 4,123	$ (897,332)	$ 8,639,487	3.25 %

	December 31, 2022				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	$ 142,345	$ —	$ (2,629)	$ 139,716	0.57 %
U.S. Govt. Guaranteed	4,481,124	582	(502,233)	3,979,473	2.58
U.S. Govt. Agency Guaranteed	5,022,259	268	(484,982)	4,537,545	2.68
Non-Agency ABSs	410,205	25	(5,214)	405,016	3.96
Total	$ 10,055,933	$ 875	$ (995,058)	$ 9,061,750	2.66 %

	December 31, 2021				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	$ 342,763	$ 1	$ (651)	$ 342,113	0.13 %
U.S. Govt. Guaranteed	4,131,704	67,541	(34,158)	4,165,087	1.76
U.S. Govt. Agency Guaranteed	4,468,622	20,502	(32,689)	4,456,435	1.36
Non-Agency ABSs	352,476	1,461	—	353,937	1.80
Total	$ 9,295,565	$ 89,505	$ (67,498)	$ 9,317,572	1.51 %

Held-to-maturity

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments at each period end follows:

December 31, 2023					
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 184	$ —	$ (3)	$ 181	5.80 %
RABs and Other	10,966	146	(369)	10,743	5.86
Total	$ 11,150	$ 146	$ (372)	$ 10,924	5.86 %

December 31, 2022					
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 436	$ —	$ (8)	$ 428	5.92 %
RABs and Other	13,622	56	(606)	13,072	5.90
Total	$ 14,058	$ 56	$ (614)	$ 13,500	5.90 %

December 31, 2021					
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 475	$ —	$ (8)	$ 467	5.94 %
RABs and Other	18,658	2,507	—	21,165	5.94
Total	$ 19,133	$ 2,507	$ (8)	$ 21,632	5.94 %

A summary of the contractual maturity, estimated fair value, and amortized cost of investment securities at December 31, 2023, follows:

Available-for-sale

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Treasury Securities	$ 26,613	0.55 %	$ 14,704	3.56 %	$ —	— %	$ —	— %	$ 41,317	1.61 %
U.S. Govt. Guaranteed	—	—	46,250	2.86	389,737	2.36	3,190,475	2.74	3,626,462	2.70
U.S. Govt. Agency Guaranteed	27,852	0.85	416,373	4.72	1,275,482	5.58	2,569,851	2.43	4,289,558	3.50
Non-Agency ABSs	—	—	631,506	4.95	50,644	5.98	—	—	682,150	5.02
Total fair value	$ 54,465	0.70 %	$ 1,108,833	4.75 %	$ 1,715,863	4.80 %	$ 5,760,326	2.60 %	$ 8,639,487	3.25 %
Total amortized cost	$ 56,232		$ 1,122,886		$ 1,781,197		$ 6,572,381		$ 9,532,696	

Held-to-maturity

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	$ —	— %	$ —	— %	$ —	— %	$ 184	5.80 %	$ 184	5.80 %
RABs and Other	879	6.12	—	—	—	—	10,087	5.84	10,966	5.86
Total amortized cost	$ 879	6.12 %	$ —	— %	$ —	— %	$ 10,271	5.84 %	$ 11,150	5.86 %
Total fair value	$ 870		$ —		$ —		$ 10,054		$ 10,924	

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

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for available-for-sale investments that have been in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	December 31, 2023					
	Less Than 12 Months		12 Months Or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ —	$ —	$ 41,317	$ (1,068)	$ 41,317	$ (1,068)
U.S. Govt. Guaranteed	82,468	(2,263)	3,414,490	(478,324)	3,496,958	(480,587)
U.S. Govt. Agency Guaranteed	334,638	(1,378)	3,619,731	(411,105)	3,954,369	(412,483)
Non-Agency ABSs	94,508	(473)	183,369	(2,721)	277,877	(3,194)
Total	$ 511,614	$ (4,114)	$ 7,258,907	$ (893,218)	$ 7,770,521	$ (897,332)

Prior to the adoption of CECL on January 1, 2023, the following tables included the fair value and gross unrealized loss of the available-for-sale and held-to-maturity investment.

	December 31, 2022					
	Less Than 12 Months		12 Months Or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ 14,575	$ (253)	$ 125,141	$ (2,376)	$ 139,716	$ (2,629)
U.S. Govt. Guaranteed	2,605,800	(228,069)	1,296,188	(274,164)	3,901,988	(502,233)
U.S. Govt. Agency Guaranteed	2,767,577	(152,133)	1,759,524	(332,857)	4,527,101	(484,990)
Non-Agency ABSs	364,991	(5,214)	—	—	364,991	(5,214)
RABs and Other	9,404	(606)	—	—	9,404	(606)
Total	$ 5,762,347	$ (386,275)	$ 3,180,853	$ (609,397)	$ 8,943,200	$ (995,672)

	December 31, 2021					
	Less Than 12 Months		12 Months Or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Treasury Securities	$ 242,079	$ (651)	$ —	$ —	$ 242,079	$ (651)
U.S. Govt. Guaranteed	1,502,188	(29,512)	244,954	(4,646)	1,747,142	(34,158)
U.S. Govt. Agency Guaranteed	2,367,203	(32,340)	96,074	(357)	2,463,277	(32,697)
Total	$ 4,111,470	$ (62,503)	$ 341,028	$ (5,003)	$ 4,452,498	$ (67,506)

The Bank evaluates investment securities with unrealized losses for impairment on a quarterly basis. As part of this assessment, it was concluded that the Bank does not intend to sell the securities prior to recovery of the amortized cost basis. The Bank 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 Bank does not consider these unrealized losses to be credit-related and an ACL is not necessary.

Note 5 — Premises and Equipment

Premises and equipment consisted of the following:

	December 31,		
(dollars in thousands)	2023	2022	2021
Land	$ 12,348	$ 12,258	$ 12,217
Buildings and improvements	48,109	47,334	46,285
Furniture, software, and equipment	137,399	67,374	62,791
Work in progress	43,434	67,608	27,131
	241,290	194,574	148,424
Less: accumulated depreciation	92,899	71,996	64,533
Total	$ 148,391	$ 122,578	$ 83,891

Note 6 — Debt

Bonds and Notes

AgFirst, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued jointly by the System Banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets, at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks. The System Banks and the Funding Corporation have entered into the Third Amended and Restated Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System Banks' exposure to statutory joint and several liabilities. At December 31, 2023, AgFirst was in compliance with the conditions of participation for the issuances of Systemwide Debt Securities.

In accordance with FCA regulations, each issuance of Systemwide Debt Securities ranks equally with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The following table provides a summary of AgFirst's recorded liability for outstanding Systemwide Debt Securities by maturity.

	December 31, 2023					
	Bonds		Discount Notes		Total	
Maturities	Cost	Weighted Average Interest Rate	Cost	Weighted Average Interest Rate	Cost	Weighted Average Interest Rate
	(dollars in thousands)					
2024	$ 10,478,541	3.46%	$ 3,486,082	5.38%	$ 13,964,623	3.94%
2025	8,819,423	3.75%	—	—	8,819,423	3.75%
2026	4,189,878	2.64%	—	—	4,189,878	2.64%
2027	2,382,132	1.99%	—	—	2,382,132	1.99%
2028	2,868,069	2.94%	—	—	2,868,069	2.94%
2029 and after	10,459,315	3.71%	—	—	10,459,315	3.71%
Total	$ 39,197,358	3.38%	$ 3,486,082	5.38%	$ 42,683,440	3.54%

Discount notes are issued with maturities of one year or less. The weighted average maturity of discount notes at period end was 82 days.

Systemwide debt includes callable bonds consisting of the following as of the most recent year-end:

Amortized Cost	First Call Date	Year of Maturity
	(dollars in thousands)	
$ 26,859,769	2024	2024 - 2043
74,881	2025	2026 - 2028
$ 26,934,650	Total	

Most callable debt may be called on the first call date and any time thereafter.

As described in Note 1, *Organization and Operations*, the Insurance Fund is available to ensure the timely payment of principal and interest on Systemwide Debt Securities (Insured Debt) of System Banks to the extent net assets are available in the Insurance Fund and not designated for specific use.

Note 7 — Shareholders' Equity

Descriptions of the Bank's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below:

A. **Description of Equities:** In accordance with the Farm Credit Act and the Bank's capitalization bylaws (Bylaws), the Bank is authorized to issue and have outstanding Classes B, C, D, and E Common Stock, Participation Certificates, Preferred Stock, and other classes of equity as may be provided for in the Bylaws. All Common Stock and Participation Certificates have a par or face value of five dollars per share.

The Bank had the following shares of common equities outstanding at December 31, 2023:

		Shares Outstanding *(dollars in thousands)*	
Class	**Protected Status**	**Number of Shares**	**Aggregate Par Value**
B Common/Non-OFI	No	1,077,258	$ 5,386
C Common/Voting	No	101,395,391	506,977
D Common/Nonvoting	No	8,838,555	44,193
E Common/Nonvoting	No	—	—
Participation Certificates/Nonvoting	No	994,301	4,971
Total Capital Stock and Participation Certificates		112,305,505	$ 561,527

B. **Perpetual Preferred Stock:** During 2021, the Bank repurchased, through privately negotiated transactions, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with par value totaling $16.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $16.8 million and to increase additional paid-in capital by $4.8 million. During 2022, the remaining perpetual preferred stock of $32.5 million was redeemed at par.

C. **Capital Stock:** District Associations are required to maintain ownership in the Bank in the form of Class B or Class C Common Stock as determined by the Bank. Associations fund stock purchases through Direct Note advances. A stock equalization computation is made not less than annually. The Bank may require additional capital contributions to maintain its capital at appropriate levels.

On October 27, 2023, the Board of Directors approved an increase to the Association minimum required investment in AgFirst from 1.00 percent to 1.50 percent of the average Association Direct Note balance effective October 31, 2023. This resulted in an increase in the Class C Common Stock of $132.3 million. At December 31, 2023, 2022, and 2021, the Associations' minimum stock requirement was 1.50 percent, 1.00 percent, and 1.10 percent, respectively, of Association Direct Note balances based on a risk-adjusted asset formula.

On December 11, 2023, the Board of Directors approved a redesignation of the Bank's 2022 special patronage distribution of $123.0 million in the form of allocated surplus to Class C Common Stock effective December 31, 2023. This redesignation effectively increased the stock investment to 2.00 percent.

Additionally, the Bank has issued Class D Common Stock through patronage distributions in connection with participations purchased by the Bank from another System institution selling loans to the Bank in accordance with the provisions of the Bank's capitalization plan. Class D Common Stock issued in connection with participations has no voting rights except to the extent that voting rights are granted to the Class D Common Stock pursuant to the Act, the FCA Regulations. Class D Common Stock issued in connection with participations has no voting rights except to the extent that voting rights are granted to the Class D Common Stock pursuant to the Act, the FCA Regulations, or when bylaws amendments modify voting rights or the Capitalization plan and would materially adversely affect the outstanding shares or units of such class of stock. Such stock may be retired at the discretion of the Board, and if retired, shall be retired at book value not to exceed its par value.

Class E Common Stock may be issued for any lawful purpose subject to a plan adopted by the Board. Class E Common Stock has no voting rights except to the extent voting rights are granted to the Class E Common Stock pursuant to the Act, the FCA regulations. Class E Common Stock pursuant to the Act, the FCA Regulations, or when bylaws amendments modify voting rights or the Capitalization plan and would materially adversely affect the outstanding shares or units of such class of stock. Such stock may be retired at the discretion of the Board, and if retired, shall be retired at book value, not to exceed its par value.

D. **Other Equity:** OFIs make cash purchases of participation certificates and are required to capitalize their loans. At December 31, 2023, 2022, and 2021, the OFIs' minimum stock requirement was 2.50 percent, 2.50 percent, and 2.76 percent of Direct Note balances, respectively.

E. **Order of Priority Upon Impairment or Liquidation:**

Impairment

Net losses, to the extent they exceed unallocated surplus, shall, except as otherwise provided in the Act, be treated as impairing stock in the following order:

First, Class B Common Stock, Class C Common Stock, Class D Common Stock, Class E Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of stock then issued and outstanding, until such stock is fully impaired; and

Second, Preferred Stock, if applicable, in proportion to the number of shares of each class and series thereof then issued and outstanding (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in reverse order of priority first to the most junior ranking series and then successively to each next most junior ranking series) and consistent with the terms of each such class or series until such stock is fully impaired; and

Third, subject to the Act, as amended, and the regulations thereunder, in such manner as shall be determined by the Board.

Liquidation

In the event of liquidation or dissolution of AgFirst, any assets of AgFirst remaining after payment or retirement of all liabilities shall be distributed in the following order or priority:

First, to the holders of Preferred Stock, if applicable, in proportion to the number of shares of each class and series thereof then issued and outstanding and consistent with the terms of each such series until an amount equal to the liquidation preference provided for in the terms of such series of Preferred Stock has been distributed to such holders (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in order of priority first to the most senior ranking series and then successively to each next most senior ranking series); and

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

Third, in accordance with the memorandum of accounting established in the Agreement and Plan of Consolidation between The Farm Credit Bank of Columbia and The Farm Credit Bank of Baltimore, dated as of October 31, 1994; and

Fourth, all remaining assets of AgFirst after such distributions shall be to the extent practicable distributed to all stockholders and holders of Participation Certificates on a patronage basis.

F. **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 Bank has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

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

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 regulatory 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 PCR 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 with Capital Conservation Buffer	Capital Ratios as of December 31, 2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital	4.50%	2.50%	7.00%	15.37%	15.32%	18.47%
Tier 1 Capital	6.00%	2.50%	8.50%	15.37%	15.32%	18.70%
Total Regulatory Capital	8.00%	2.50%	10.50%	15.66%	15.46%	18.85%
Permanent Capital	7.00%	0.00%	7.00%	15.41%	15.34%	18.73%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.00%	1.00%	5.00%	6.08%	6.09%	6.87%
URE and UREE Leverage	1.50%	0.00%	1.50%	4.64%	5.37%	6.09%

**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.

G. **Accumulated Other Comprehensive Income (Loss):** The following presents activity related to AOCI for the periods presented.

	Changes in AOCI by Component *(a)*		
	For the Year Ended December 31,		
(dollars in thousands)	2023	2022	2021
Investment Securities:			
Balance at beginning of period	$ (994,183)	$ 22,007	$ 190,529
OCI before reclassifications	100,974	(1,016,190)	(168,192)
Amounts reclassified from AOCI	—	—	(330)
Net current period OCI	100,974	(1,016,190)	(168,522)
Balance at end of period	$ (893,209)	$ (994,183)	$ 22,007
Cash Flow Hedges:			
Balance at beginning of period	$ —	$ 201	$ 287
OCI before reclassifications	(107)	(79)	69
Amounts reclassified from AOCI	107	(122)	(155)
Net current period OCI	—	(201)	(86)
Balance at end of period	$ —	$ —	$ 201
Employee Benefit Plans:			
Balance at beginning of period	$ 285	$ (3,610)	$ (4,954)
OCI before reclassifications	(91)	3,195	494
Amounts reclassified from AOCI	22	700	850
Net current period OCI	(69)	3,895	1,344
Balance at end of period	$ 216	$ 285	$ (3,610)
Total AOCI:			
Balance at beginning of period	$ (993,898)	$ 18,598	$ 185,862
OCI before reclassifications	100,776	(1,013,074)	(167,629)
Amounts reclassified from AOCI	129	578	365
Net current period OCI	100,905	(1,012,496)	(167,264)
Balance at end of period	$ (892,993)	$ (993,898)	$ 18,598

	Reclassifications Out of AOCI *(b)*			
	For the Year Ended December 31,			
(dollars in thousands)	2023	2022	2021	Income Statement Line Item
Investment Securities:				
Sales gains & losses	$ —	$ —	$ 330	Gains on investments, net
Net amounts reclassified	—	—	330	
Cash Flow Hedges:				
Interest income	$ —	$ 201	$ 86	Interest income on investment securities
(Losses) gains on other transactions	(107)	(79)	69	(Losses) gains on other transactions
Net amounts reclassified	$ (107)	$ 122	$ 155	
Employee Benefit Plans:				
Periodic pension costs	$ (22)	$ (700)	$ (850)	See Note 9, *Employee Benefit Plans*
Net amounts reclassified	$ (22)	$ (700)	$ (850)	
Reclassifications for the period	$ (129)	$ (578)	$ (365)	

(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 establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity.

The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement. See Note 2, *Summary of Significant Accounting Policies*, Subsection K, *Valuation Methodologies*, for further information.

Estimating the fair value of equity investments in other Farm Credit institutions is not practicable because the stock is not traded. The net investment is carried at cost.

The classifications within the fair value hierarchy are as follows:

Level 1
Level 1 assets consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. 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. These funds may be redeemed on any business day on which the New York Stock Exchange is open for regular trading.

For cash and cash equivalents, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2
The fair value of substantially all investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

Level 2 assets include investments in U.S. government and agency mortgage-backed securities and U.S. agency debt securities, all of which use unadjusted values from third parties or internal pricing models. The underlying loans for these investment securities are residential mortgages or commercial loans.

Also included are non-agency ABSs, federal funds sold, securities purchased under resale agreements, loans held for sale and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments that are highly-liquid, readily convertible to cash, and short-term in nature is generally their face value, plus accrued interest.

Level 3
Because no active market exists for the Bank's loans, fair value is estimated by discounting the expected future cash flows using interest rates at which similar loans would currently be made to borrowers with similar credit risk. For purposes of determining fair value of accruing loans, the portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status 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.

For investments in debt securities, fair value is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

Other property owned is classified as a Level 3 asset. 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. Other property owned consists primarily of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Bank's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

Systemwide Debt Securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between Systemwide Debt Securities and Treasury securities. An appropriate yield-spread is estimated, taking into consideration selling group member (banks and securities dealers) yield indications, observed new GSE debt security pricing, and pricing levels in the related USD interest rate swap market.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

	December 31, 2023				
(dollars in thousands)	**Total Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury Securities	$ 41,317	$ —	$ 41,317	$ —	$ 41,317
U.S. Govt. Guaranteed	3,626,462	—	3,626,462	—	3,626,462
U.S. Govt. Agency Guaranteed	4,289,558	—	4,289,558	—	4,289,558
Non-Agency ABSs	682,150	—	682,150	—	682,150
Total investments in debt securities available-for-sale	8,639,487	—	8,639,487	—	8,639,487
Cash equivalents	835,000	—	835,000	—	835,000
Assets held in trust funds	17,787	17,787	—	—	17,787
Recurring Assets	$ 9,492,274	$ 17,787	$ 9,474,487	$ —	$ 9,492,274
Nonrecurring Measurements					
Assets:					
Nonaccrual loans	$ 8,589	$ —	$ —	$ 8,589	$ 8,589
Other property owned	260	—	—	260	260
Loans held for sale	29,669	—	29,669	—	29,669
Nonrecurring Assets	$ 38,518	$ —	$ 29,669	$ 8,849	$ 38,518
Other Financial Instruments					
Assets:					
Cash	$ 655,814	$ 655,814	$ —	$ —	$ 655,814
Investments in debt securities held-to-maturity	11,150	—	181	10,743	10,924
Loans	34,278,715	—	—	32,603,724	32,603,724
Other Financial Assets	$ 34,945,679	$ 655,814	$ 181	$ 32,614,467	$ 33,270,462
Liabilities:					
Systemwide debt securities	$ 42,683,440	$ —	$ —	$ 41,105,112	$ 41,105,112
Other Financial Liabilities	$ 42,683,440	$ —	$ —	$ 41,105,112	$ 41,105,112

	December 31, 2022				
(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury Securities	$ 139,716	$ —	$ 139,716	$ —	$ 139,716
U.S. Govt. Guaranteed	3,979,473	—	3,979,473	—	3,979,473
U.S. Govt. Agency Guaranteed	4,537,545	—	4,537,545	—	4,537,545
Non-Agency ABSs	405,016	—	405,016	—	405,016
Total investments in debt securities available-for-sale	9,061,750	—	9,061,750	—	9,061,750
Cash equivalents	350,000	—	350,000	—	350,000
Assets held in trust funds	16,896	16,896	—	—	16,896
Recurring Assets	$ 9,428,646	$ 16,896	$ 9,411,750	$ —	$ 9,428,646
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 34,161	$ —	$ —	$ 34,161	$ 34,161
Nonrecurring Assets	$ 34,161	$ —	$ —	$ 34,161	$ 34,161
Other Financial Instruments					
Assets:					
Cash	$ 746,392	$ 746,392	$ —	$ —	$ 746,392
Investments in debt securities held-to-maturity	14,058	—	428	13,072	13,500
Loans*	31,408,501	—	—	29,369,063	29,369,063
Other Financial Assets	$ 32,168,951	$ 746,392	$ 428	$ 29,382,135	$ 30,128,955
Liabilities:					
Systemwide debt securities	$ 40,139,921	$ —	$ —	$ 37,649,443	$ 37,649,443
Other Financial Liabilities	$ 40,139,921	$ —	$ —	$ 37,649,443	$ 37,649,443

*The Level 3 fair value amount has been revised to correct an error in the amount disclosed in the previously issued annual financial statements. The correction increased the fair value of Level 3 loans by $1.3 billion.

(dollars in thousands)	December 31, 2021 Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Investments in debt securities available-for-sale:					
U.S. Govt. Treasury Securities	$ 342,113	$ —	$ 342,113	$ —	$ 342,113
U.S. Govt. Guaranteed	4,165,087	—	4,165,087	—	4,165,087
U.S. Govt. Agency Guaranteed	4,456,435	—	4,456,435	—	4,456,435
Non-Agency ABSs	353,937	—	353,937	—	353,937
Total investments in debt securities available-for-sale	9,317,572	—	9,317,572	—	9,317,572
Cash equivalents	400,000	—	400,000	—	400,000
Assets held in trust funds	20,426	20,426	—	—	20,426
Recurring Assets	$ 9,737,998	$ 20,426	$ 9,717,572	$ —	$ 9,737,998
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 31,571	$ —	$ —	$ 31,571	$ 31,571
Nonrecurring Assets	$ 31,571	$ —	$ —	$ 31,571	$ 31,571
Other Financial Instruments					
Assets:					
Cash	$ 625,288	$ 625,288	$ —	$ —	$ 625,288
Investments in debt securities held-to-maturity	19,133	—	467	21,165	21,632
Loans	28,483,964	—	—	28,315,436	28,315,436
Other Financial Assets	$ 29,128,385	$ 625,288	$ 467	$ 28,336,601	$ 28,962,356
Liabilities:					
Systemwide debt securities	$ 36,356,771	$ —	$ —	$ 36,110,567	$ 36,110,567
Other Financial Liabilities	$ 36,356,771	$ —	$ —	$ 36,110,567	$ 36,110,567

Uncertainty in Measurements of Fair Value

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investments in Debt Securities

The fair values of predominantly all Level 3 investments in debt securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Inputs to Valuation Techniques

Management determines the Bank's valuation policies and procedures. Internal valuation processes are calibrated annually by an independent consultant. Fair value measurements are analyzed on a periodic basis. Documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Recurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Debt securities available-for-sale	Discounted cash flow	Constant prepayment rate Probability of default Loss severity
	Quoted prices	Price for similar security
	Vendor priced	*
Federal funds sold, securities purchased under resale agreements and other	Carrying value	Par/principal and appropriate interest yield
Loans held for sale	Quoted prices	Price for similar loan

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Cash and cash equivalents	Carrying value	Par/principal and appropriate interest yield
Debt securities held-to-maturity	Discounted cash flow	Constant prepayment rate Prepayment rates Probability of default Risk-adjusted spread Loss severity
	Quoted prices	Price for similar security
	Vendor priced	*
Systemwide debt securities	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk
Cash collateral	Carrying value	Par/principal and appropriate interest yield

**The inputs used to estimate fair value for assets and liabilities that are obtained from third-party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

Note 9 — Employee Benefit Plans

The Bank participates in three District-sponsored qualified benefit plans. First is a multiemployer defined benefit pension plan, the AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan). Second, the Bank participates in a multiemployer defined benefit other postretirement benefits plan (OPEB Plan), the FCBA Retiree and Disabled Medical and Dental Plan. Third is a defined contribution 401(k) plan (401(k) Plan), the FCBA 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 Bank chooses to stop participating in some of its multiemployer plans, the Bank may be required to contribute to eliminate the underfunded status of the plan.

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required to be filed. As such, the following information is 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 Bank. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Bank's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Bank's Statements of Comprehensive Income were

$3.2 million for 2023, $3.5 million for 2022, and $6.9 million for 2021. At December 31, 2023, 2022, and 2021, the total liability balance for the FAP Plan was $33.7 million, $32.6 million, and $39.1 million, respectively. The FAP Plan was 95.43 percent, 95.81 percent, and 96.17 percent funded to the projected benefit obligation as of December 31, 2023, 2022, and 2021, respectively.

In addition to providing pension benefits, the Bank provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Bank employees may become eligible for the benefits if they reach early retirement age while working for the Bank. 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. In addition, substantially all District employees who retired on or before December 1, 2007, after reaching early retirement age are provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Bank or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Bank's 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 Bank's Statements of Comprehensive Income were $1.1 million for 2023, $1.1 million for 2022, and $972 thousand for 2021. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $161.0 million, $167.9 million, and $209.6 million at December 31, 2023, 2022, and 2021, respectively.

The Bank 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 Bank 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 Bank 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 employee benefit costs were $5.3 million, $4.7 million, and $4.1 million, for the years ended December 31, 2023, 2022, and 2021, respectively.

In addition to the multiemployer plans above, the Bank sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Bank's Balance Sheets in Other Liabilities. The supplemental retirement plan is unfunded and had a projected benefit obligation of $12.3 million and a net under-funded status of $12.3 million at December 31, 2023. Assumptions used to determine the projected benefit obligation as of that date included a discount rate of 5.00 percent and a rate of compensation increase of 5.00 percent. Expenses of these nonqualified plans included in noninterest expenses were $1.1 million, $1.5 million, and $1.7 million for 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, a net debit of $69 thousand, a net credit of $3.9 million, and a net credit of $1.3 million, respectively, have been recognized to AOCI to reflect these elements.

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

Note 10 — Related Party Transactions

In the ordinary course of business, the Bank enters into loan transactions with related parties which may include loans to officers and directors, their immediate families and other organizations with which such persons may be affiliated. There were no material loans outstanding with related parties for any of the periods presented.

As discussed in Note 1, *Organization and Operations*, the Bank lends funds to the District Associations primarily to fund their loan portfolios. Further disclosure regarding these related party transactions is found in Note 3, *Loans and Allowance for Credit Losses*; Note 7, *Shareholders' Equity*; and Note 11, *Commitments and Contingencies*.

Interest income recognized, net of participations sold, on Direct Notes receivable from District Associations and OFIs was $807.2 million, $559.8 million, and $448.0 million for 2023, 2022, and 2021, respectively.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Bank in which claims for money damages are asserted. On at least a quarterly basis, the Bank 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 and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Bank. Because it is remote that the Bank 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 Bank may participate in credit related financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers or the borrowers of the District Associations. These financial instruments may include commitments to extend credit, letters of credit, or various guarantees. 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 financial instruments have off-balance-sheet credit risk because their amounts could be drawn upon at the option of the borrower. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. 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 loan collateral 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 period end, $6.3 billion of commitments to extend credit were outstanding with a related reserve for unfunded commitments of $4.0 million included in Other Liabilities in the Balance Sheets. No reserve for unfunded commitments is established for commitments related to the Bank's Direct Note portfolio.

The Bank 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 period end, standby letters of credit outstanding totaled $78.9 million, with expiration dates ranging from January 2024 to February 2044. The maximum potential amount of future payments the Bank may be required to make under these existing guarantees is $78.9 million.

Under the Farm Credit Act, each System Bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the four banks are jointly and severally liable for the bonds and notes of the other System Banks under the terms of the Joint and Several Liability Allocation Agreement. Published in the Federal Register, the agreement prescribes the payment mechanisms to be employed in the event one of the banks is unable to meet its debt obligations.

In the event a bank is unable to timely pay principal or interest on an insured debt obligation for which it is primarily liable, the FCSIC must expend amounts available in the Insurance Fund to ensure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. At December 31, 2023, the assets of the Insurance Fund totaled $7.5 billion. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

Once the joint and several liability provisions are initiated, the FCA is required to make calls to satisfy the liability first on all non-defaulting banks in the proportion that each non-defaulting bank's available collateral (collateral in excess of the aggregate of the bank's collateralized obligations) bears to the aggregate available collateral of all non-defaulting banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting bank's remaining assets. Upon making a call on non-defaulting banks with respect to a Systemwide Debt Security issued on behalf of a defaulting bank, the FCA is required to appoint the FCSIC as the receiver for the defaulting bank. The receiver would be required to expeditiously liquidate the bank.

AgFirst did not anticipate making any payments on behalf of its co-obligors under the Joint and Several Liability Allocation Agreement for any of the periods presented. The total amounts outstanding under the agreement are as follows:

	December 31,		
(dollars in billions)	**2023**	**2022**	**2021**
Total System bonds and notes	$ 415.5	$ 390.0	$ 352.8

Note 12 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2023				
(dollars in thousands)	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 131,225	$ 121,588	$ 119,687	$ 118,826	$ 491,326
Provision for (reversal of) allowance for credit losses	15,416	(3,130)	743	2,924	15,953
Noninterest income (expense), net	(45,514)	(60,269)	(58,189)	(46,081)	(210,053)
Net income	$ 70,295	$ 64,449	$ 60,755	$ 69,821	$ 265,320

	2022				
(dollars in thousands)	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 155,927	$ 152,902	$ 150,968	$ 145,738	$ 605,535
Provision for (reversal of) allowance for loan losses	1,277	562	1,039	4,826	7,704
Noninterest income (expense), net	(41,950)	(48,732)	(53,452)	(41,737)	(185,871)
Net income	$ 112,700	$ 103,608	$ 96,477	$ 99,175	$ 411,960

(dollars in thousands)	2021 First	Second	Third	Fourth	Total
Net interest income	$ 160,713	$ 160,621	$ 162,950	$ 164,114	$ 648,398
Provision for (reversal of) allowance for loan losses	1,084	831	760	877	3,552
Noninterest income (expense), net	(35,742)	(43,236)	(45,262)	(34,600)	(158,840)
Net income	$ 123,887	$ 116,554	$ 116,928	$ 128,637	$ 486,006

Offsetting of Financial and Derivative Assets

(dollars in thousands)	December 31, 2023	2022	2021
Reverse repurchase and similar arrangements	$ 835,000	$ 350,000	$ 400,000
Gross Amount of Recognized Assets	835,000	350,000	400,000
Reverse repurchase and similar arrangements	—	—	—
Gross Amounts Offset in the Balance Sheets	—	—	—
Net Amounts of Assets Presented in the Balance Sheets	$ 835,000	$ 350,000	$ 400,000
Financial Instruments	(835,000)	(350,000)	(400,000)
Cash Collateral Received	—	—	—
Gross Amounts Not Offset in the Balance Sheets	(835,000)	(350,000)	(400,000)
Net Amount	$ —	$ —	$ —

There were no liabilities subject to master netting arrangements or similar agreements during the reporting periods.

The reverse repurchase agreements are accounted for as collateralized lending.

Combined Districtwide Financial Statements
The accompanying financial statements exclude financial information of the Bank’s affiliated Associations. The Bank and its affiliated Associations are collectively referred to as the AgFirst District. The Bank separately publishes in a report certain unaudited combined financial information of the AgFirst District, including a statement of condition and statement of comprehensive income, which can be found on the Bank’s website at ***www.agfirst.com***.

Note 13 — Subsequent Events

The Bank evaluated subsequent events and determined, other than described below, no subsequent events have occurred requiring disclosure through March 7, 2024, which was the date the financial statements were issued.

On March 6, 2024, Chad E. Toney was appointed to a newly created Chief Risk Officer position from his previous role as Chief Information Security Officer. Mr. Toney will continue as a member of the Executive Committee reporting directly to the Chief Executive Officer.

Additional Required Regulatory Capital Disclosures

The following disclosures contain regulatory disclosures as required for the Bank under Regulation §628.62 and §628.63 for risk-adjusted ratios: common equity tier 1 capital, tier 1 capital and total capital ratios. As required, these disclosures are made available for at least three years and can be accessed via AgFirst's website at www.agfirst.com.

DISCLOSURE MAP

Disclosure Requirement	Description	Annual Report Reference
Scope of Application	Corporate entity and structure	Note 1
	Restrictions of capital	Note 7, Capital section of MD&A
Capital Structure	Terms and conditions of capital instruments	Note 7
Credit Risk: General	Qualitative disclosures	Note 2; Note 3
	Distribution of risk exposure	Note 3; Note 4
	Loans by loan type	Note 3
	Major industry type	Note 3, Loan Portfolio section of MD&A
	Composition of Direct Notes	Direct Notes section of MD&A
	Allowance for Loan Loss Reconciliation	Note 3
Interest Rate Risk for Non-Trading Activities	Quantitative & qualitative disclosure requirements	Interest Rate Risk Management section of MD&A

SCOPE OF APPLICATION

AgFirst Farm Credit Bank (AgFirst or the Bank) is one of the four banks of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, established by Congress and subject to the provisions of the Farm Credit Act of 1971, as amended. The Bank prepares financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry.

As of December 31, 2023, the AgFirst District consisted of the Bank and 16 District Associations. See further discussion in *Note 1 - Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements* related to Association mergers. All Associations were structured as Agricultural Credit Association (ACA) holding companies, with Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries. AgFirst is owned jointly by these Associations, certain Other Financing Institutions (OFIs), and other System institutions. The Bank does not have any subsidiaries requiring consolidation; therefore, there are no consolidated entities for which the total capital requirement is deducted, there are no restrictions on transfer of funds or total capital with other consolidated entities and no subsidiary exists which is below the minimum total capital requirement individually or when aggregated at the Bank's level. In conjunction with other System entities, the Bank jointly owns certain service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the FCS Building Association (FCSBA), and the Farm Credit Association Captive Insurance Corporation (Captive). Certain of the Bank's investments in other System institutions, including the investment in the Funding Corporation and FCSBA, are deducted from capital for purposes of calculating regulatory capital ratios, as only the institution that issued the equities may count the amount as regulatory capital.

CAPITAL STRUCTURE

Descriptions of the Bank's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are included in Note 7, *Shareholders' Equity,* of the Notes to the Financial Statements.

The table below outlines the Bank's capital structure for the capital adequacy calculations as of December 31, 2023:

(dollars in thousands)	Ending Balance	3-Month Average Daily Balance
Common Equity Tier 1 Capital (CET1)		
Common cooperative equities:		
Statutory minimum purchased borrower stock	$ 20	$ 20
Other required member purchased stock	230,673	186,605
Allocated equities:		
Allocated stock subject to retirement	330,834	204,485
Nonqualified allocated surplus subject to retirement	413	122,076
Unallocated retained earnings	1,950,133	2,174,812
Paid-in capital	63,668	63,668
Regulatory adjustments and deductions made to CET1*	(88,000)	(84,030)
Total CET1	$ 2,487,741	$ 2,667,636
Additional Tier 1 Capital (AT1)		
Regulatory adjustments and deductions made to AT1	$ —	$ —
Total AT1	$ —	$ —
Total Tier 1 Capital	$ 2,487,741	$ 2,667,636
Tier 2 Capital		
Allowance for loan losses	$ 39,420	$ 47,614
Reserve for unfunded commitments	4,039	3,922
Regulatory adjustments and deductions made to total capital	—	—
Total Tier 2 Capital	$ 43,459	$ 51,536
Total Capital	$ 2,531,200	$ 2,719,172
Reconciliation to Balance Sheets:		
Allowance for loan losses	$ (39,420)	
Reserve for unfunded commitments	(4,039)	
Intra-system investments	88,000	
Accumulated other comprehensive income	(892,993)	
Total Capital per Balance Sheets	$ 1,682,748	

* *Primarily investments in other System institutions.*

CAPITAL ADEQUACY AND CAPITAL BUFFERS

In conjunction with the annual business and financial planning process, the Board of Directors reviews and approves a capital adequacy plan which includes target levels for capital and capital ratio baselines. When reviewing the capital adequacy plan and setting an appropriate target equity level, the Board considers the following: credit risk and allowance levels; quality and quantity of earnings; sufficiency of liquid funds; operational risk; interest rate risk; growth in determining optimal capital levels; the Bank's overall risk profile; capability of management; quality of operating policies, procedures, and internal controls; capital composition; loan volume projections; anticipated future capital needs; and the Bank's capital levels in comparison to regulatory minimum capital standards.

The Board balances the desire to distribute a level of patronage that provides appropriate returns to the Bank's customer/owners with the need to properly capitalize the Bank. The Board may increase or decrease these patronage levels based on its ongoing evaluation of the Bank's business. As a result, there is no assurance that patronage will remain at current levels.

As part of its business planning process, the Bank performs stress tests to examine the Bank's financial condition and performance, including capital levels, under a variety of market and economic environments, including unanticipated loan growth and prolonged periods of financial and loan quality stress. These stress tests illustrate the Bank's ability to continue to maintain compliance with regulatory requirements through severe market conditions while continuing to fulfill the Bank's mission. Results of these stress tests are reviewed with the ALCO, Board of Directors and the FCA.

The table below outlines the Bank's risk-weighted assets by exposure (including accrued interest of that exposure) as of December 31, 2023. Risk-weighted assets are calculated on a three-month average daily balance.

(dollars in thousands)		3-month Average Risk-Weighted Assets
On-Balance Sheet Asset Exposures:		
Government-sponsored entities, including Direct Notes to Associations	$	5,697,865
Depository institutions		204,002
Corporate exposures, including borrower loans and leases		7,446,285
Residential mortgage loans		1,431,366
Past due > 90 days and nonaccrual loans		65,615
Securitizations		325,132
Exposures to obligors and other assets		218,007
Total Risk Weighted Assets, On-Balance Sheet	$	15,388,272
Off-Balance Sheet Exposures:		
Letters of credit	$	88,884
Commitments		1,880,995
Over-the-counter derivatives		771
Total Risk Weighted Assets, On-Balance Sheet	$	1,970,650
Total Risk-Weighted Assets Before Adjustments	$	17,358,922
Additions:		
Intra-system equity investments		84,029
Deductions:		
Regulatory capital deductions		(84,029)
Total Standardized Risk-Weighted Assets	$	17,358,922

As of December 31, 2023, the Bank exceeded all capital requirements to which it was subject, including applicable capital buffers. The Bank's risk-adjusted capital ratios exceeded the regulatory minimum levels, including the conservation buffer by at least 5.16 percent. Additionally, the Bank's leverage ratio was 1.08 percent in excess of its required minimum leverage ratio, including the buffer. 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.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital	4.50%	2.50%	7.00%	15.37%	15.32%	18.47%
Tier 1 Capital	6.00%	2.50%	8.50%	15.37%	15.32%	18.70%
Total Capital	8.00%	2.50%	10.50%	15.66%	15.46%	18.85%
Permanent Capital	7.00%	0.00%	7.00%	15.41%	15.34%	18.73%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.00%	1.00%	5.00%	6.08%	6.09%	6.87%
URE and UREE Leverage	1.50%	0.00%	1.50%	4.64%	5.37%	6.09%

* *The Tier 1 Leverage Ratio must include a minimum of 1.5% of URE and URE Equivalents.*

CREDIT RISK: GENERAL

System entities have specific lending authorities within their chartered territories. The Bank is subject to credit risk by lending to the District's Federal Land Credit Associations (FLCAs), Production Credit Associations (PCAs) and Agricultural Credit Associations (ACAs) as well as Other Financing Institutions (OFIs). The Bank also purchases participations and syndications and first lien residential mortgage loans. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be nonperforming based on characteristics such as probability of default (PD) and loss given default (LGD). Allowance needs by geographic region are only considered in rare circumstances that may not otherwise be reflected in the PD and LGD (flooding, drought, etc.). There was no allowance attributed to a geographic area as of December 31, 2023.

Refer to Note 2, *Summary of Significant Accounting Policies*, of the accompanying financial statements for the Bank's policy for determining past due or delinquency status, policy for placing loans on nonaccrual status, policy for returning loans to accrual status, definition of and policy for identifying nonperforming loans, description of the methodology used to estimate allowance for loan losses, and policy for charging-off uncollectible amounts. Refer to Note 3, *Loans and Allowance for Credit Losses*, and Note 4, *Investments*, in the Notes to the Financial Statements for quantitative disclosures related to the Bank's credit risk.

CREDIT RISK MITIGATION

Credit Risk Mitigation Related to Loans

The Bank uses various strategies to mitigate credit risk in its lending portfolio. As described in Note 1, *Organization and Operations*, in the Notes to the Financial Statements, a substantial portion of the loan balance is concentrated in notes receivable from the District Associations to fund their earning assets, which collateralize the notes. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their respective retail loan portfolios.

The Bank and District Associations limit their exposure to both borrower and commodity concentrations through the District Associations' and Bank's participation in loans or interests in loans to/from other institutions within the System and outside the System. This also allows the Bank and District Associations to manage growth and capital, and to improve geographic diversification. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

Although neither the Bank nor any other System institution receives any direct government support, credit quality is indirectly enhanced by government support in the form of program payments to borrowers, which improve their ability to honor their commitments.

The following table illustrates credit risk mitigants within AgFirst's loan portfolio which reduce capital requirements as of December 31, 2023:

(dollars in thousands)	Ending Balance	3-Month Average Balance	Risk-Weighted Exposures	% of Total Loans
Loans with unconditional guarantee	$ 6,453	$ 6,694	$ —	— %
Loans with conditional guarantee	550,746	559,139	111,828	2 %
Direct Notes	23,231,185	22,806,560	4,561,312	67 %
Total	$ 23,788,384	$ 23,372,393	$ 4,673,140	69 %

An additional technique to reduce credit risk is AgFirst's monitoring for commodity and geographic concentrations. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer.

The Bank's credit risk associated with its Direct Note portfolio approximates that of the aggregate District Associations' portfolios as a whole. The Associations' credit portfolios are comprised of a number of segments having varying, and in some cases complementary, agricultural characteristics. Excluding accrued interest receivable, at December 31, 2023, the Bank's Direct Note portfolio totaled $23.2 billion and aggregate District Associations' loan portfolios totaled $29.6 billion. For geographic and commodity distributions for the District Associations' total loan portfolio, see *Direct Notes* in the *Loan Portfolio* section in Management's Discussion and Analysis.

The following table illustrates AgFirst's loan portfolio by geographic distribution at December 31, 2023. This table includes the Bank's Direct Notes in total and does not include accrued interest.

AgFirst Loan Portfolio by State*

	At Period End			Year-to-Date Average Balance		
(dollars in thousands)	**Outstanding Loans**	**Unfunded Amounts**	**Total Exposure**	**Outstanding Loans**	**Unfunded Amounts**	**Total Exposure**
North Carolina	$ 1,433,134	$ 213,156	$ 1,646,290	$ 1,373,552	$ 205,517	$ 1,579,069
Georgia	1,191,498	429,195	1,620,693	1,162,210	422,366	1,584,576
Florida	961,417	420,611	1,382,028	907,079	447,449	1,354,528
Texas	789,793	240,421	1,030,214	753,637	183,652	937,289
South Carolina	611,990	90,582	702,572	575,929	74,604	650,533
Minnesota	381,890	269,209	651,099	399,504	239,575	639,079
Virginia	507,925	90,752	598,677	496,341	95,201	591,542
New York	359,373	192,861	552,234	428,503	168,056	596,559
California	369,954	99,947	469,901	377,423	89,030	466,453
Illinois	284,022	178,261	462,283	340,961	134,053	475,014
Ohio	343,826	99,015	442,841	300,675	107,671	408,346
Pennsylvania	259,418	166,663	426,081	231,858	163,248	395,106
Indiana	239,780	133,339	373,119	226,688	135,722	362,410
Maryland	298,198	23,838	322,036	299,251	33,437	332,688
Louisiana	179,592	116,048	295,640	170,223	105,128	275,351
Tennessee	176,542	112,333	288,875	172,520	100,044	272,564
Missouri	167,726	112,867	280,593	177,925	107,848	285,773
Kentucky	229,144	46,320	275,464	228,835	36,747	265,582
Washington	185,288	79,767	265,055	163,928	73,840	237,768
Nebraska	136,292	124,737	261,029	100,962	105,639	206,601
All other states and Puerto Rico	2,068,612	910,092	2,978,704	1,940,510	876,874	2,817,384
Direct Notes	23,151,310	2,189,752	25,341,062	21,938,311	2,668,994	24,607,305
Total loans	$ 34,326,724	$ 6,339,766	$ 40,666,490	$ 32,766,825	$ 6,574,695	$ 39,341,520

* *The distribution is based on the state in which the borrower is headquartered and may not be representative of their operations and business activities.*

The following table shows the various major commodity groups in the portfolio based on borrower eligibility at December 31, 2023. This table includes the Bank's Direct Notes in total and does not include accrued interest.

AgFirst Loan Portfolio by Commodity Group Based on Eligibility

	At Period End			Year-to-Date Average Balance		
(dollars in thousands)	**Outstanding Loans**	**Unfunded Amounts**	**Total Exposure**	**Outstanding Loans**	**Unfunded Amounts**	**Total Exposure**
Rural Home Loans	$ 3,172,405	$ 146,778	$ 3,319,183	$ 3,115,905	$ 145,785	$ 3,261,690
Utilities	1,942,481	920,742	2,863,223	1,801,351	831,274	2,632,625
Processing	1,649,179	944,011	2,593,190	1,534,416	908,454	2,442,870
Forestry	1,226,113	397,546	1,623,659	1,274,586	404,689	1,679,275
Field Crops	403,682	286,673	690,355	445,479	279,315	724,794
Tree Fruits and Nuts	338,981	180,943	519,924	336,784	199,373	536,157
Grains	256,518	240,435	496,953	260,897	205,325	466,222
Dairy	248,767	87,085	335,852	207,074	89,667	296,741
Cattle	254,520	46,981	301,501	227,935	35,103	263,038
Nursery/Greenhouse	184,898	53,542	238,440	198,359	43,382	241,741
Swine	193,214	39,030	232,244	180,112	46,509	226,621
Other	1,304,656	806,248	2,110,904	1,245,616	716,825	1,962,441
Direct Notes	23,151,310	2,189,752	25,341,062	21,938,311	2,668,994	24,607,305
Total loans	$ 34,326,724	$ 6,339,766	$ 40,666,490	$ 32,766,825	$ 6,574,695	$ 39,341,520

The following table segregates loans based upon repayment dependency by commodity at December 31, 2023. This table includes the Bank's Direct Notes in total and does not include accrued interest.

AgFirst Loan Portfolio by Commodity Group Based on Repayment Dependency

	At Period End			Year-to-Date Average Balance		
(dollars in thousands)	Outstanding Loans	Unfunded Amounts	Total Exposure	Outstanding Loans	Unfunded Amounts	Total Exposure
Non-Farm Income	$ 3,510,692	$ 212,087	$ 3,722,779	$ 3,445,983	$ 189,776	$ 3,635,759
Utilities	1,899,409	901,177	2,800,586	1,767,687	821,003	2,588,690
Processing	1,593,020	944,236	2,537,256	1,527,950	906,081	2,434,031
Forestry	1,106,194	385,935	1,492,129	1,157,325	394,257	1,551,582
Field Crops	442,479	308,836	751,315	475,299	309,418	784,717
Grains	262,384	249,353	511,737	268,945	213,952	482,897
Tree Fruits and Nuts	320,005	152,493	472,498	309,902	165,732	475,634
Dairy	263,405	84,210	347,615	205,615	87,390	293,005
Cattle	238,823	38,385	277,208	211,296	30,130	241,426
Other	1,539,003	873,302	2,412,305	1,458,512	787,962	2,246,474
Direct Notes	23,151,310	2,189,752	25,341,062	21,938,311	2,668,994	24,607,305
Total loans	$ 34,326,724	$ 6,339,766	$ 40,666,490	$ 32,766,825	$ 6,574,695	$ 39,341,520

A significant source of liquidity for the Bank is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end. This table does not include accrued interest.

	December 31, 2023				
(dollars in thousands)	Due Less Than 1 Year	Due 1 Through 5 Years	Due 5 to 15 Years	Due After 15 Years	Total
Direct Notes*	$ 2,016,340	$ 5,253,879	$ 8,525,380	$ 7,355,711	$ 23,151,310
Real estate mortgage	11,830	273,021	578,967	285,368	1,149,186
Production and intermediate-term	397,347	697,883	294,643	—	1,389,873
Agribusiness	259,747	1,725,571	658,300	15,960	2,659,578
Rural infrastructure	134,484	1,406,322	619,520	364,536	2,524,862
Rural residential real estate	150,053	27,871	343,712	2,650,769	3,172,405
Other	8,170	227,664	43,676	—	279,510
Total	$ 2,977,971	$ 9,612,211	$ 11,064,198	$ 10,672,344	$ 34,326,724
Percentage	8.68 %	28.00 %	32.23 %	31.09 %	100.00 %

**Based on the underlying Association loans serving as collateral for the Direct Note which is a revolving line of credit*

The following table illustrates AgFirst's nonperforming loans by geographic distribution at December 31, 2023. This table does not include accrued interest.

Total Outstanding Nonperforming Loans by State*

(dollars in thousands)	At Period End	Year-to-Date Average Balance
Georgia	$ 11,687	$ 10,902
North Carolina	10,749	9,000
California	10,111	17,262
South Carolina	2,226	662
Virginia	2,199	1,548
Nebraska	2,067	2,231
Florida	891	2,437
Kentucky	799	793
Texas	677	2,339
All other states and Puerto Rico	2,675	2,751
Total nonperforming loans	$ 44,081	$ 49,925

** The distribution is based on the state in which the borrower is headquartered and may not be representative of their operations and business activities.*

The Bank does not use credit default swaps as part of its credit risk management approach.

Credit Risk Mitigation Related to Investments

Credit risk in AgFirst's investment portfolio is largely mitigated by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies.

The following table shows the investment exposures covered by a guarantee as of December 31, 2023. This table does not include accrued interest.

(dollars in thousands)	Amortized Cost	Fair Value	% of Total Investments	Risk-Weighted Exposures
Unconditional Guarantee:				
U.S. Govt. Treasury Securities	$ 42,385	$ 41,317	— %	$ —
U.S. Govt. Guaranteed	4,105,757	3,626,462	43 %	—
Conditional Guarantee:				
U.S. Govt. Agency Guaranteed	4,700,900	4,289,739	50 %	940,304
Total	$ 8,849,042	$ 7,957,518	93 %	$ 940,304

The remaining credit risk in the Bank's investment portfolio primarily relates to the seven percent of the portfolio composed of asset-backed securities (ABS), Rural Housing Mortgage-Backed Securities (RHMS) and Rural America Bonds (RABs). The ABS securities must meet the applicable FCA regulatory guidelines, which require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, priority of payments for senior classes over junior classes, or bond insurance.

All of the non-agency securities owned have one or more credit enhancement features. The RHMS portfolio must be fully guaranteed by a government agency or government sponsored enterprise. RABs are private placement securities, which generally have some form of credit enhancement. Credit risk in the investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements, such as bond insurers or Farmer Mac, to meet their contractual obligations to the Bank.

COUNTERPARTY CREDIT RISK

Counterparty credit risk exposures may consist of derivative instruments and repurchase-style transactions. By using derivative instruments, the Bank exposes itself to credit and market risk. The amount of this exposure depends on the value of underlying market factors (e.g. interest rates and foreign exchange rates), which can be volatile and uncertain in nature. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the Bank is exposed to an economic loss if the counterparty defaults. When the fair value of the derivative contract is negative, the counterparty is exposed to an economic loss in the event of a Bank default and the Bank has no credit risk exposure.

To minimize the risk of credit losses, the Bank transacts with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of, and levels of exposure to, individual counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts.

Financial instruments qualifying as eligible collateral are specifically defined under individual counterparty credit support agreements, but generally include cash, U.S. Treasury debt obligations, debt obligations of certain federal agencies and mortgage-backed securities guaranteed by certain federal agencies. Federal agencies include the Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and the Federal Home Loan Banks. The value of the instrument when used as collateral may be discounted from its market price up to 10 percent, depending on the security type, issuer and term. Such discounts are defined in the credit support agreement.

At December 31, 2023, the Bank had foreign currency forwards and forward commitments outstanding with a notional value of $8.1 million.

SECURITIZATION

Securitizations are transactions in which:

- The credit risk of the underlying exposure is transferred to third parties, and has been separated into two or more tranches;
- The performance of the securitization depends upon the performance of the underlying exposures or reference assets; and
- All or substantially all of the underlying exposures or reference assets are financial exposures.

Securitizations include on- or off-balance sheet exposures (including credit enhancements) that arise from a securitization or re-securitization transaction; or an exposure that directly or indirectly references a securitization (e.g., credit derivative). A re-securitization is a securitization transaction in which one or more of the underlying exposures that have been securitized is itself a securitization.

The Bank currently only participates in securitizations as an investor through the purchase of mortgage-backed securities (MBSs) and ABSs as included in its investment portfolio. As of December 31, 2023, the Bank did not retain any re-securitization exposures.

The Bank is subject to liquidity risk with respect to securitization exposures. In volatile market conditions, it could be difficult to sell such investments, if the need arises, and the discounts from face value would likely be significant. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of these investments may differ significantly from the values that would have been used had a ready market existed for the investments.

The Bank has elected to utilize the simplified supervisory formula risk-based capital approach (SSFA) for securitization exposures related to investments. As such, the Bank's ABS portfolio is risk weighted on an individual security level. As of December 31, 2023, the ABS risk weights ranged from 20.00 percent to 128.86 percent, with a weighted average risk-weight of 51.15 percent. Total risk-weighted assets for the investment securitization portfolio utilizing a 3-month average daily balance was $321.4 million at December 31, 2023.

The following table shows the risk-weight distribution as of December 31, 2023 for ABS securities which are risk weighted using the SSFA approach. This table does not include accrued interest.

	ABS Securities by SSFA Risk Weight Classification		
(dollars in thousands)	**Automobile ABSs**	**Credit Card ABSs**	**Total**
0% – 50%	$ 40,764	$ 385,174	$ 425,938
Greater than 50% – 100%	137,403	—	137,403
Greater than 100% – 150%	120,497	—	120,497
Total Exposure	$ 298,664	$ 385,174	$ 683,838

As of December 31, 2023, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital. For the year ended December 31, 2023, there were no sales of ABS securities that resulted in realized gains or losses.

Refer to Note 4, *Investments*, in the Notes to the Financial Statements for additional information related to purchases and sales of securitization exposures as well as the amortized cost, unrealized gains/(losses) and fair value of MBSs and ABSs held in the Bank's investment portfolio.

EQUITIES

At December 31, 2023, the Bank had no equity investments other than equity investments in other Farm Credit institutions.

INTEREST RATE RISK

See *Interest Rate Risk Management* in the *Risk Management* section of Management's Discussion and Analysis for the disclosures on the Bank's interest rate risk management practices.

Glossary of Certain Acronyms

ABS	Asset backed security
ACA	Agricultural Credit Association
ACB	Agricultural Credit Bank
ACL	Allowance for credit losses
AFS	Available-for-sale
ALCO	Asset/Liability Management Committee
AOCI	Accumulated Other Comprehensive Income
ASU	Accounting Standards Update
CECL	Current expected credit losses
CET1	Common equity tier 1
CIPA	Contractual Interbank Performance Agreement
CMO	Collateralized Mortgage Obligation
FAP	Final average pay
FASB	Financial Accounting Standards Board
FCA	Farm Credit Administration
FCB	Farm Credit Bank
FCBA	Farm Credit Benefits Alliance
FCBT	Farm Credit Bank of Texas
FCSIC	Farm Credit System Insurance Corporation
FFB	Federal Financing Bank
FLCA	Federal Land Credit Association
FSA	Farm Service Agency
GAAP	Generally Accepted Accounting Principles
GFA	General Financing Agreement
GNMA	Government National Mortgage Association (Ginnie Mae)
GSE	Government-sponsored enterprise
HTM	Held-to-maturity
LGD	Loss given default
LIBOR	London Inter-Bank Offered Rate
LLC	Limited liability company
LTSP	Long-term standby commitment to purchase
MAA	Market Access Agreement
MBS	Mortgage-backed security
NII	Net interest income
NRSRO	Nationally Recognized Statistical Rating Organization
OAEM	Other Assets Especially Mentioned
OCI	Other Comprehensive Income
OFI	Other financing institution
OPEB	Other postretirement benefits plan
OPO	Other property owned
OTTI	Other-than-temporary impairment
PCA	Production Credit Association
PD	Probability of default
RAB	Rural America Bond
RHMS	Rural Housing Mortgage-Backed Securities
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SOFR	Secured Overnight Financing Rate
SSFA	Simplified supervisory formula risk-based capital approach
TDR	Troubled debt restructuring
UBE	Unincorporated business entity
URE	Unallocated retained earnings
UREE	Unallocated retained earnings equivalents
USD	U.S. dollar
USDA	United States Department of Agriculture
YBS	Young, beginning, and small


AGFIRST