INVESTING IN Tomorrow

FARM CREDIT 2023 ANNUAL REPORT

FARM CREDIT
HORIZON

HORIZON FARM CREDIT, ACA

2023 ANNUAL REPORT

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Brian E. Rosati .... Chief Financial Officer
William J. Rutter .... Chief Risk Officer
Crystal A. Standish .... Chief Business Development Officer
Karen S. Swecker .... Chief Operating Officer

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Message from the President

Investing in Tomorrow

Greetings!

I trust the holidays were thoroughly enjoyable and that 2024 has gotten off to a great start! Although the new year has begun and exciting things are ahead, it's important to look back at the last year and reflect upon the progress being made toward our goals and our alignment with the Farm Credit mission: to support agriculture and our rural communities, both now and in the future.

2023 brought us together, for our first full year as Horizon Farm Credit, and it prompted a unified, resolute approach to planning for our future. Your Board of Directors reaffirmed the need for our Association to continually and strategically **invest in tomorrow** — our cooperative's tomorrow, our members' tomorrow, and our industry's tomorrow. I'm proud of our track record in these areas and the future of each remains very bright. Just as our member-owners do in their operations, this Association must always be striving to improve and adapt to the ever-changing agriculture industry. To effectively fulfill our mission, we need to deliver the capital, technology, and business solutions our members need — at present and for generations to come.

To that end, we've once again secured a sound capital position, ensuring that we have the capability to fund future growth. Additionally, we've expanded our business services offerings to meet members' needs and undertaken a technology transformation that will significantly increase our capacity to deliver advanced technology, enhanced security, and optimal service in the long run. We've also continued to support the next generation of farmers through our **Farmers on the Rise** award program, **JumpStart** grant program, and **Ag Biz Masters** educational program — all of which serve as investments in our industry's future.

We have so much to be proud of — and much to look forward to! 2023 was a transformative year, one that has truly prepared our cooperative for the future. I'm pleased to report that Horizon Farm Credit is well positioned to meet market demands, exceed financial industry standards, and serve members' needs with unmatched expertise *today and tomorrow.* Thank you for trusting us as your financial partner.

The electronic version of this report is available on our website, ***horizonfc.com***. Should you have any questions about the Association's financials, please call 888.339.3334.

Thomas H. Truitt, Jr.
Chief Executive Officer

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Horizon Farm Credit, ACA, in accordance with accounting principles generally accepted in the United States of America. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

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

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

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2023 Annual Report of Horizon Farm Credit, ACA, that the report has been prepared under the oversight of the Audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

David R. Smith
Chair of the Board

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian E. Rosati
Chief Financial Officer

March 7, 2024

Report on Internal Control Over Financial Reporting

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2023. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2023, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2023.

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian Rosati

Brian E. Rosati
Chief Financial Officer

March 7, 2024

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2023	2022	December 31, 2021	2020	2019
Balance Sheet Data					
Cash	**$ 32**	$ 24	$ 344	$ 228	$ 3,508
Loans	**6,612,361**	6,055,951	3,040,890	2,905,638	2,844,993
Allowance for loan losses	**(17,283)**	(23,306)	(30,280)	(36,131)	(32,197)
Net loans	**6,595,078**	6,032,645	3,010,610	2,869,507	2,812,796
Equity investments in other Farm Credit institutions	**105,628**	75,269	27,177	30,257	32,825
Other property owned	**925**	1,095	1,368	1,661	1,415
Other assets	**122,532**	99,997	80,784	80,465	66,855
Total assets	**$ 6,824,195**	$6,209,030	$3,120,283	$2,982,118	$2,917,399
Notes payable to AgFirst Farm Credit Bank*	**$ 5,474,772**	$4,910,198	$2,338,902	$2,229,163	$2,192,656
Accrued interest payable and other liabilities with maturities of less than one year	**145,147**	151,336	110,090	87,631	63,198
Total liabilities	**5,619,919**	5,061,534	2,448,992	2,316,794	2,255,854
Capital stock and participation certificates	**21,470**	21,883	11,814	11,400	10,974
Additional paid-in-capital	**267,216**	267,216	—	—	—
Retained earnings					
Allocated	**619,254**	586,676	407,650	405,105	409,174
Unallocated	**296,483**	271,819	252,262	249,314	241,769
Accumulated other comprehensive income (loss)	**(147)**	(98)	(435)	(495)	(372)
Total members' equity	**1,204,276**	1,147,496	671,291	665,324	661,545
Total liabilities and members' equity	**$ 6,824,195**	$6,209,030	$3,120,283	$2,982,118	$2,917,399
Statement of Income Data					
Net interest income	**$ 175,365**	$ 126,048	$ 77,724	$ 76,069	$ 73,577
Provision for (reversal of) allowance for credit losses	**1,382**	(7,001)	(5,000)	5,000	4,000
Noninterest income (expense), net	**(42,268)**	(12,578)	6,269	7,663	(5,805)
Net income	**$ 131,715**	$ 120,471	$ 88,993	$ 78,732	$ 63,772
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.03%**	2.64%	2.99%	2.70%	2.22%
Total members' equity	**11.02%**	13.14%	13.15%	11.67%	9.74%
Net interest income as a percentage of average earning assets	**2.77%**	2.81%	2.64%	2.64%	2.61%
Net (chargeoffs) recoveries to average loans	**(0.02)%**	0.00%	(0.03)%	(0.04)%	(0.07)%
Total members' equity to total assets	**17.65%**	18.48%	21.51%	22.31%	22.68%
Debt to members' equity (:1)	**4.67**	4.41	3.65	3.48	3.41
Allowance for loan losses to loans	**0.26%**	0.38%	1.00%	1.24%	1.13%
Permanent capital ratio	**15.44%**	16.31%	19.75%	20.69%	20.91%
Common equity tier 1 capital ratio	**15.40%**	16.25%	19.53%	20.31%	19.69%
Tier 1 capital ratio	**15.40%**	16.25%	19.53%	20.31%	19.69%
Total regulatory capital ratio	**15.70%**	16.63%	20.70%	21.66%	21.81%
Tier 1 leverage ratio**	**16.61%**	17.70%	20.91%	21.68%	20.78%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**16.28%**	17.34%	20.79%	21.67%	20.75%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 79,550**	$ 80,000	$ 80,500	$ 51,500	$ 17,000
Nonqualified retained earnings	**29,851**	18,159	622	17,695	41,251

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

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Horizon Farm Credit, ACA, (Association) for the year ended December 31, 2023, with comparisons to the years ended December 31, 2022, and December 31, 2021. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements, and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" contained in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

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

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

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.horizonfc.com***, by calling 1-888-339-3334, or by writing Brian Rosati, Chief Financial Officer, Horizon Farm Credit, ACA, 300 Winding Creek Boulevard, Mechanicsburg, PA 17050. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

MERGER ACTIVITY

AgChoice Farm Credit, ACA, merged with MidAtlantic Farm Credit, ACA, (the Merger) to form Horizon Farm Credit, ACA, effective July 1, 2022. Horizon Farm Credit, ACA, is headquartered in Mechanicsburg, PA. The Merger brought together two successful and respected Associations to better serve agriculture and our rural communities through optimized resources, increased efficiency, and greater access to specialized expertise.

The effects of the Merger are included in our financial position, results of operations and related metrics beginning July 1, 2022. Prior year results are not reflective of the Merger executed on July 1, 2022. Results of operations and equity reflect the results of MidAtlantic Farm Credit, ACA, through June 30, 2022, and the merged Association on July 1, 2022, and thereafter. Upon the closing of the Merger, loans increased $2.6 billion, liabilities increased $2.2 billion, and equity increased $438.6 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations. See further information regarding the Merger within Note 14, *Merger Activity*, of the Notes to the Consolidated Financial Statements.

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

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ECONOMIC CONDITIONS

The Association's loan portfolio ended 2023 in a very strong condition. As of December 31, 2023, the percentage of fully acceptable loans and other assets especially mentioned increased slightly to 98.7 percent, compared to 98.5 percent for the prior year-end. The increase was largely driven by a reduction in substandard rated loans with a corresponding increase in the special mention category and a modest decrease in the fully acceptable category. The continued strong credit quality resulted from average conditions for our major portfolio segments, prudent underwriting and servicing of new and existing loans and a portfolio with diverse commodities and repayment sources. Underlying this was a mixed bag of economic factors and conditions evidenced in 2023 and continuing into early 2024, as is further discussed below.

The Federal Funds Rate increased by 100 basis points in the first 7 months of 2023, via four hikes of 25 basis points each. This was a relatively shallower trajectory than was seen in 2022, which saw six consecutive increases totaling 425 basis points over a period of ten months. This was in reaction to inflation running well over the levels targeted by the Federal Reserve. As inflation moderated in 2023, so did the pace of rate increases and there is a general consensus the hiking cycle has been completed, with rate cuts even possible later in 2024. The 2/10 year spread for US Treasuries ended 2023 inverted at negative 35 basis points, with significant inversions sometimes serving as a harbinger of a recession in coming months. This was slightly less inverted than 2022, which ended at negative 53 bps. The higher rate environment appears to have put some downward pressure on both inflation and some economic activities. Housing prices have shrugged off higher rates to the dismay of buyers as inventories are remarkably tight in many areas, but refinance activity all but vanished across the board. A bright spot on the economic front in the U.S. was the national unemployment rate, which at the end of 2023 continued to be low at 3.7 percent (seasonally adjusted figure) compared to 3.6 percent for 2022. Unemployment rates also continued to be low for each of the five states in which the Association is chartered, although Delaware and Virginia did have readings slightly higher than the national average.

According to the United States Department of Agriculture (USDA), Land Values 2023 Summary (August 2023), the United States farm real estate value, a measurement of the value of all land and buildings on farms, averaged $4,080 per acre for 2023, up $280 per acre (7.4 percent) from 2022. The United States cropland value averaged $5,460 per acre, an increase of $410 per acre (8.1 percent) from the previous year. Farm real estate values in our territory directionally followed these trends with some variation in $/percent increases by state. States in our territory, with the exception of West Virginia, all have values higher than the national averages, although West Virginia had the highest growth rate in 2023, at 6.7 percent, while the highest valued states of Maryland and Delaware were flat.

Farm real estate values are generally expected to remain sound due to breakeven or better crop margins, which will continue to be a significant strength to borrowers' equity ratios. In some areas of our territory, other factors such as proximity to urban environments or desirable settings including waterfront properties can have significant impact on agricultural land values even in more rural settings.

The poultry industry, specifically the 'contract broiler' segment, represents the largest agricultural commodity in the loan portfolio at 11.1 percent and is geographically concentrated in the tri-state region locally known as the Delmarva Peninsula. Credit quality in this segment ended 2023 at 91.1 percent acceptable, down slightly from 94.0 percent in 2022. Several large, nationally prominent "poultry integrators" serve as the foundation for this industry locally with some mid-tier or smaller operations as well. Integrators reduce farm-level risk by supplying chicks, feed, medicines and other support while the farmer supplies the land, buildings, utilities, and labor. Exports are an important component of prices received by U.S. firms and continue to be weighed down by weak trade with China, only partially offset by other countries and with a similar outlook for 2024. Domestic production is expected be up about half a percent in 2024. Poultry prices, as measured nationally by the composite whole broiler price, are forecast to average about 1.0 cents higher in 2024 than in 2023, at 126 cents per pound. Locally, flock turn times with integrators are following typical seasonal patterns.

The dairy industry is the second largest concentration in the loan portfolio, at 10.7 percent of the total portfolio. Credit quality in the dairy segment declined slightly in 2023 to 94.1 percent acceptable, as compared to 94.4 percent at the end of 2022. U.S. dairy margins were comparatively weak in 2023, leading to a projected continued decline in herd numbers nationally. The average all-milk price is also forecast to decline. Input costs in 2023 have stabilized but from rather high levels, though moderating grain prices should also be a bit of a tailwind. Though dairy exists to some degree throughout the Association's territory, it is geographically concentrated in the state of Pennsylvania and much like the rest of the Northeast, is primarily composed of small to medium sized operations. Farmers in our territory, who tend to grow most of their own forages and grains, could generate stronger returns than farmers purchasing forages and grains. Customers continue to face supply management constraints from their co-ops and processors. Beef and cull prices are currently strong. Looking ahead, we expect that dairy customers in our territory will operate above breakeven on average in 2024, but only marginally so.

The third largest portfolio segment is Grains at 10.3 percent. Credit quality in the grains segment ended 2023 at 95.8 percent acceptable, down from 97.1 percent acceptable in 2022. A large number of grain farmers in our portfolio have other income sources (off-farm income, other crops or a livestock enterprise) to supplement their income. Further, in much of our chartered territory a positive basis exists for grains over the Chicago-quoted prices, largely due to animal feeding operations consuming more corn than is locally produced. High input costs relative to grain prices continue to be a concern with costs having somewhat moderated, but only in the context of the extreme highs in recent years. Higher interest rates and labor costs also factor in and grain prices generally have moderated at a similar (or higher) pace. So, margin compression remains a focus area here, but chiefly in terms of reduced cushion against adversity rather than outright negative results or projections. Working capital also remains strong from prior results.

Loans primarily dependent on non-farm income sources and loans in segments that historically track closely with the broader economy (ex: equine, nursery/greenhouse) represent another concentration in the loan portfolio at a combined 32.1 percent of total loans, which may include some overlap with categories cited above. There is significant diversity in repayment sources within this segment, further supported by having several metropolitan areas located in and near our territory. Credit quality in this segment decreased slightly in 2023 to 97.2

percent acceptable, compared to 97.6 percent acceptable on December 31, 2022. Unemployment trends are a key factor for this portfolio segment, and as noted above, continue to be generally supportive of credit quality in 2023.

The Association purchases and sells participation or syndication interests with other parties in order to diversify risk, manage loan volume, and comply with the FCA regulations. As of December 31, 2023, the Association held $1.551 billion of principal balance and $607.6 million in unused commitments in purchased and syndicated loans to the following industries: food processing, rural utilities, protein processing (poultry, pork and beef), dairy processing, paper and forest products, livestock, vineyards, cash grains, and other commodities. Overall credit quality in this portion of the loan portfolio is 97.8 percent acceptable compared to 99.0 percent one year ago.

The Association continues to target certain areas of our business with the goal of increasing market share. In 2023, the Association continued expansion of its farm equipment financing program, Farm Credit ***EXPRESS*** (FCE), which provides an efficient electronic point-of-sale loan application process for farm equipment financing. The success of this program has been further realized with members who joined the Association with an equipment loan, expanding their borrowing needs with a mortgage or operating loan. At the end of 2023, the Association was providing this service on a per transaction fee basis for all associations within the AgFirst District. During 2023, there were 3,537 notes that were closed by our FCE team for approximately $179 million, including $66 million of loans booked to the Association. During 2023, there were 1,692 new members to the Farm Credit System as a result of the FCE program. Continued efforts are being made to expand technology and services, increase public knowledge of our services and streamline our current delivery of products to enhance our existing portfolio. FCE also has an equipment leasing program, which provides an additional option to borrowers. The leasing program included $1.1 million of additional volume booked to the Association in 2023 and $2.3 million total across the FCE program footprint.

LOAN PORTFOLIO

The Association's loan volume was $6,612,361 at December 31, 2023, compared to $6,055,951 at December 31, 2022, an increase of $556,410 or 9.19 percent. The increase in loan volume was driven by growth in the Local Service Area portfolio, as well as the Capital Markets portfolio.

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short- and intermediate-term loans and long-term real estate mortgage loans through numerous product types. The diversification of Association loan volume by type for each of the past three years is reflected in the following table.

	December 31,					
Loan Types	**2023**		**2022**		**2021**	
	(dollars in thousands)					
Real estate mortgage	$ 3,658,033	55.32%	$ 3,529,846	58.28%	$ 2,000,305	65.79%
Production and intermediate term	1,509,903	22.83	1,454,345	24.01	758,322	24.94
Processing and marketing	609,829	9.22	425,531	7.03	81,753	2.69
Communication	229,515	3.47	188,658	3.12	42,407	1.39
Power and water/waste disposal	186,574	2.82	66,369	1.10	725	0.02
Farm-related business	149,179	2.26	132,515	2.19	53,564	1.76
Loans to cooperatives	107,413	1.62	106,603	1.76	20,923	0.69
Rural residential real estate	94,356	1.43	91,131	1.50	57,922	1.90
International	62,479	0.95	55,563	0.92	24,969	0.82
Lease receivables	5,080	0.08	5,390	0.09	–	–
Total	$ 6,612,361	100.00%	$ 6,055,951	100.00%	$ 3,040,890	100.00%

While we make loans and provide financially related services (FRS) to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by geographic locations served, commodities financed, and loan participations purchased and sold.

The geographic distribution of the loans, including interest accrued, by region for the past three years is reflected in the following table. Capital Markets/Other includes the Association's purchased and syndicated loans, Farm Credit Leasing loans, and nonaccruing loans.

	December 31,		
Region	**2023**	**2022**	**2021**
Susquehanna	19%	20%	25%
Delmarva	18	19	36
Appalachian	14	15	–
Potomac	12	13	28
Allegheny	12	13	–
Capital Markets/Other	25	20	11
Total	100%	100%	100%

Commodity and industry categories are based upon the Standard Industrial Classification (SIC) system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown in the following table. Other also includes cotton, rural home loans and tobacco. The Merger was the primary reason for the shift in commodity concentration from 2021 to 2022, which further increased diversification within our portfolio. For 2023, the predominant commodities are poultry, dairy, grains, field crops, and forestry, which together constitute 50 percent of the entire portfolio.

Commodity Group	December 31, 2023		2022		2021	
	(dollars in thousands)					
Poultry	$ 733,164	11.1%	$ 726,711	12.0%	$ 551,374	18.1%
Dairy	708,221	10.7	678,684	11.2	255,684	8.4
Grains	681,283	10.3	625,469	10.3	331,646	10.9
Field Crops	662,725	10.0	586,674	9.7	288,276	9.5
Forestry	534,193	8.1	486,395	8.0	129,900	4.3
Other Real Estate	461,331	7.0	457,600	7.6	276,486	9.1
Cattle	460,466	7.0	348,896	5.8	141,357	4.6
Processing	359,298	5.4	343,777	5.7	132,070	4.3
Horses	323,076	4.9	266,900	4.4	194,236	6.4
Corn	270,810	4.1	248,309	4.1	223,437	7.3
Utilities	262,064	4.0	223,965	3.7	43,132	1.4
Nursery/Greenhouse	189,943	2.9	187,899	3.1	134,193	4.4
Tree Fruits & Nuts	165,133	2.5	149,185	2.5	56,793	1.9
Swine	108,195	1.6	116,751	1.9	55,880	1.8
Other	692,459	10.4	608,736	10.0	226,426	7.6
Total	$ 6,612,361	100.0%	$ 6,055,951	100.0%	$ 3,040,890	100.0%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio is well diversified from both a commodity and number of producers perspective. Further, many of the Association's members are diversified within their enterprise, which also reduces overall risk exposure.

While the Association has continued to experience demand for large loans over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of enterprise diversity in the Association's territory.

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

During 2023, the Association continued to purchase loan participations, both within and outside of the System. This program provides an important vehicle to the Association by enabling it to further spread credit risk and enhance portfolio diversification while affording an opportunity to strengthen its capital position through the generation of interest and fee income.

Loan Participations Purchased and Sold are summarized as follows:

Participations	December 31, 2023	2022	2021
	(dollars in thousands)		
Participations Purchased	$ 1,341,527	$ 1,046,872	$ 241,338
Participations Sold	(205,833)	(186,593)	(109,106)
Total	$ 1,135,694	$ 860,279	$ 132,232

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

The Association sells qualified long-term mortgage loans into the secondary market. For the periods ended December 31, 2023, 2022, and 2021, the Association originated loans for resale totaling $4,425, $39,309, and $66,268, respectively, which were sold into the secondary market. The decline in activity in 2023 and 2022 is primarily the result of the Association retaining eligible long-term mortgage loans in its portfolio and the impact from a higher interest rate environment.

The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2023, 2022, and 2021, the Association had loans amounting to $104, $134, and $200, respectively, of which 100 percent were guaranteed by Farmer Mac.

The Association additionally has loans wherein a certain portion of the loans are guaranteed by various governmental entities for the purpose of reducing risk. At December 31, 2023, 2022, and 2021, the balance of these loans was $100,757, $119,781, and $76,460, respectively.

MISSION RELATED INVESTMENTS

In partnership with other System entities and community banks, the Association provides funding to rural community facilities. The Association also makes investments in certain Rural Business Investment Companies (RBICs). Our investments in RBICs focus on small and middle market companies that create jobs and prosperity in rural America. The Association signed eight commitments for total investments up to $6 million, and as of December 31, 2023, has funded $1 million to these investment companies.

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Long-term real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250 thousand. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

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

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

The following table presents selected statistics related to the credit quality of loans at December 31.

Credit Quality	2023	2022*	2021*
Acceptable & OAEM	98.71%	98.45%	97.32%
Substandard/doubtful/loss	1.29	1.55	2.68
Total	100.00%	100.00%	100.00%

**Prior to adoption of CECL, loans were presented with accrued interest receivable.*

Nonperforming Assets

The Association's loan portfolio is divided into performing and nonperforming categories. A Special Assets Management Department is responsible for servicing the majority of loans classified as nonperforming. The nonperforming assets and related credit quality statistics are detailed below:

	December 31,		
Nonperforming Assets	**2023**	**2022***	**2021***
	(dollars in thousands)		
Nonaccrual loans	$ 27,989	$ 32,490	$ 37,648
Restructured loans	–	22,390	27,307
Accruing loans 90 days past due	1,173	10,314	220
Total nonperforming loans	29,162	65,194	65,175
Other property owned	925	1,095	1,368
Total nonperforming assets	$ 30,087	$ 66,289	$ 66,543
Ratios			
Nonaccrual loans as a percentage of total loans	0.42%	0.54%	1.24%
Nonperforming assets as a percentage of total loans	0.45%	1.09%	2.19%
Nonperforming assets as a percentage of capital	2.50%	5.78%	9.91%

**Prior to adoption of CECL, nonperforming assets included accruing restructured loans and loans were presented including accrued interest receivable. Refer to Note 2, Summary of Significant Accounting Policies, of the Notes to the Consolidated Financial Statements.*

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $4,501 or 13.85 percent, after having decreased $5,158 or 13.70 percent in the previous year. These decreases are mainly due to some large accounts that paid off or became current. Of the $27,989 in nonaccrual volume at December 31, 2023, $8,305 or 29.67 percent was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status, compared to 47.35 percent and 39.72 percent at December 31, 2022 and 2021, respectively.

Loan modifications may be granted to borrowers experiencing financial difficulty and activity on these loans were not material during year ended December 31, 2023. There were no material commitments to lend to borrowers experiencing financial difficulty whose loans have been modified at December 31, 2023.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio for any of the three years reported. The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31, 2023	2022*	2021*
	(dollars in thousands)		
Production and intermediate term	$ 6,673	$ 11,429	$ 15,941
Real estate mortgage	7,551	9,679	12,282
Agribusiness*	2,316	1,722	1,691
Rural residential real estate	271	264	278
Communication	256	107	66
International	36	36	22
Power and water/waste disposal	117	41	–
Lease receivables	63	28	–
Total allowance	$ 17,283	$ 23,306	$ 30,280

**Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*
***Prior to adoption of CECL, the allowance for loan losses was based on probable and estimable losses inherent in the loan portfolio.*

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

Allowance for Loan Losses Activity	Year Ended December 31, 2023	2022	2021
	(dollars in thousands)		
Balance at beginning of year	$ 23,306	$ 30,280	$ 36,131
Cumulative effect of a change in accounting principle	(5,639)	–	–
Charge-offs:			
Real estate mortgage	–	–	(1,039)
Production and intermediate term	(1,297)	–	(21)
Agribusiness	–	(4)	–
Rural residential real estate	(1)	(4)	(57)
Total charge-offs	(1,298)	(8)	(1,117)
Recoveries:			
Real estate mortgage	280	14	155
Production and intermediate term	6	20	111
Agribusiness	–	1	–
Rural residential real estate	–	–	–
Total recoveries	286	35	266
Net (charge-offs) recoveries	(1,012)	27	(851)
Provision for (reversal of) allowance for loan losses	628	(7,001)	(5,000)
Balance at end of year	$ 17,283	$ 23,306	$ 30,280
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.02)%	0.00%	(0.03)%

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

Allowance for Loan Losses as a Percentage of:	December 31, 2023	2022	2021
Total loans	0.26%	0.38%	1.00%
Nonaccrual loans	61.75%	71.73%	80.43%

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $175,365, $126,048, and $77,724 in 2023, 2022, and 2021, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets, and cost of debt. The increase in net interest income was principally due to the growth in the loan portfolio as well as accounting related impacts due to the Merger. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
	(dollars in thousands)			
12/31/23 - 12/31/22				
Interest income	$ 96,615	$ 65,040	$ 1,265	$ 162,920
Interest expense	44,218	68,874	511	113,603
Change in net interest income	$ 52,397	$ (3,834)	$ 754	$ 49,317
12/31/22 - 12/31/21				
Interest income	$ 67,367	$ 39,323	$ (1,468)	$ 105,222
Interest expense	27,368	29,474	56	56,898
Change in net interest income	$ 39,999	$ 9,849	$ (1,524)	$ 48,324

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

Noninterest Income

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2023**	**2022**	**2021**	**2023/ 2022**	**2022/ 2021**
	(dollars in thousands)				
Loan fees	$ 2,458	$ 1,749	$ 1,805	40.54 %	(3.10) %
Fees for financially related services	8,139	4,355	3,834	86.89	13.59
Patronage refunds from other Farm Credit Institutions	43,172	54,221	48,213	(20.38)	12.46
Gains (losses) on sales of rural home loans, net	96	806	1,414	(88.09)	(43.00)
Gains (losses) on sales of premises and equipment, net	451	323	320	39.63	0.94
Gains (losses) on other transactions	(363)	272	259	(233.46)	5.02
Other noninterest income (expense)	97	152	194	(36.18)	(21.65)
Total noninterest income	$ 54,050	$ 61,878	$ 56,039	(12.65) %	10.42 %

Loan fees increased by $709 or 40.54 percent due to higher participation fees, origination fees and various other fees. The Association participated in the Paycheck Protection Program (PPP), which supported approximately $8,329 in members' loan volume for the year ended December 31, 2021. The program generated approximately $750 of related loan fees in 2021, which are included in the loan fees above.

Fees for financially related services increased by $3,784 or 86.89 percent, principally due to payroll, tax, and consulting services, as well as higher crop insurance and appraisal services.

Noninterest income for each of the three years listed included a Special Patronage declaration from AgFirst. The Association's share of the Special Patronage was $3,010, $26,429, and $30,929 for the years ended December 31, 2023, 2022, and 2021, respectively.

Noninterest Expense

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2023**	**2022**	**2021**	**2023/ 2022**	**2022/ 2021**
	(dollars in thousands)				
Salaries and employee benefits	$ 59,930	$ 46,457	$ 34,524	29.00%	34.56%
Occupancy and equipment	3,548	2,973	2,027	19.34	46.67
Insurance Fund premiums	9,314	7,056	3,543	32.00	99.15
Purchased services	4,198	3,570	1,821	17.59	96.05
Data processing	2,090	1,340	730	55.97	83.56
(Gains) losses on other property owned, net	(50)	(176)	(17)	(71.59)	935.29
Other operating expenses	16,755	12,445	6,776	34.63	83.66
Total noninterest expense	$ 95,785	$ 73,665	$ 49,404	30.03%	49.11%

Noninterest expense increased $22,120 or 30.03 percent for the year ended December 31, 2023, as compared to the same period in 2022, and increased $24,261 or 49.11 percent in 2022 compared to 2021. The increase is primarily due to the Merger, increase in headcount, FCSIC premiums, significant technology initiatives, and business travel and training.

Salaries and employee benefits increased $13,473 or 29.00 percent in 2023 as compared to 2022. This increase is primarily attributable to (a) annual compensation increases and an increase in headcount, and (b) higher benefit expenses which were offset by lower retirement plan expenses. Post retirement benefits decreased $366 or 4.33 percent for the year ended December 31, 2023, as compared to the same period in 2022, and increased $422 or 5.25 percent in 2022 compared to 2021. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements, for further information. Excluding the impact of the deferral of salaries and employee benefits expenses in accordance with the Accounting Standards Codification 310, salaries and benefits expense increased $15,789 or 30.44 percent.

FCSIC premiums increased $2,258 or 32.00 percent in 2023 as compared to 2022. The unfavorable change resulted from increased adjusted insured debt outstanding, partially offset by the drop in premium. Insurance fund premium rates are set by FCSIC and were 18 basis points in 2023, 20 basis points in 2022, and 16 basis points in 2021.

Purchased services and Data processing expenses increased $1,378 or 28.07 percent from 2022 to 2023 due to an increase in professional services, as well as an increase in hardware and software upgrades.

Occupancy and equipment and Other operating expenses increased a total of $4,885 or 31.68 percent from 2022 to 2023, which is primarily related to additional business travel and training, building improvements, and significant technology initiatives.

Income Taxes

The Association recorded a provision for income taxes of $533 for the year ended December 31, 2023, as compared to a provision of $791 for 2022 and a provision of $366 for 2021. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

	For the 12 Months Ended		
Key Results of Operations Comparisons	**12/31/23**	**12/31/22**	**12/31/21**
Return on average assets	2.03%	2.64%	2.99%
Return on average members' equity	11.02%	13.14%	13.15%
Net interest income as a percentage of average earning assets	2.77%	2.81%	2.64%
Net (charge-offs) recoveries to average loans	(0.02)%	0.00%	(0.03)%

A key factor in maintaining and growing the net income for future years will be an increase in Acceptable loan volume, continued improvement in net interest income, and controlling loan losses, while effectively managing noninterest income and noninterest expense. There are many external economic factors that could negatively impact certain segments of the Association's portfolio and could impact the Association until economic stability is restored.

The decrease in return on average assets, return on average members' equity, and net interest income for 2023 compared to 2022 is due to growth in the loan volume, merger fair value adjustments and a decrease in Special Patronage from AgFirst. See *Allowance for Loan Losses, Net Interest Income, Noninterest Income*, and *Noninterest Expense* sections for further discussion.

The Association recorded a provision for allowance for credit losses of $1,382 and net (charge-offs) recoveries of ($1,012) for the year ended December 31, 2023. The Association recorded a reversal of allowance for credit losses of $7,001 and $5,000, and net (charge-offs) recoveries of $27 and ($851) in 2022 and 2021, due to the reduced risk of the portfolio as nonaccrual volume and charge-offs had been declining over recent years.

Noninterest income was favorably impacted by the receipt of Special Patronage distributions from AgFirst which totaled $3,010, $26,429, and $30,929 in 2023, 2022, and 2021, respectively. The fiscal stability of the Association enables it, during these somewhat uncertain times, to continue to emphasize its goals to consistently meet the needs of our membership by providing quality loan products, generate earnings which are sufficient to fund operations, assure the adequate capitalization of the Association, and achieve an acceptable rate of return for stockholders. To meet these goals, the Association will continue its efforts of attracting and retaining high quality, competitively priced, loan volume while effectively managing credit risk in the entire loan portfolio. The Association uses an Enterprise Risk Management (ERM) process which is expected to further aid the Association in its management of both short- and long-term risks. The Association will continue to actively evaluate new or modified products, including recommendations and initiatives offered in conjunction with System projects.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2023, was $5,474,772 as compared to $4,910,198 at December 31, 2022, and $2,338,902 at December 31, 2021. The increase of 11.50 percent compared to December 31, 2022, was attributable to an increase in loan volume, net of the Association's increase in members' equity attributable to retained net income. Since the end of 2019, loans have increased $3,767,368 or 132.42 percent while Members' Equity has increased $542,731 or 82.04 percent. The average volume of outstanding notes payable to the Bank was $5,193,183 and $3,566,385 for the years ended December 31, 2023 and 2022, respectively. The increase was primarily attributable to the Merger and growth in the loan portfolio. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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

The Association has a net settlement agreement with CoBank, ACB, to settle transactions between the two institutions daily to an aggregate line of credit of $200 million. The Association had no other lines of credit from third party financial institutions as of December 31, 2023.

Funds Management

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

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

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

Relationship with the Bank

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

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

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

CAPITAL RESOURCES

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

The Association's Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2023, nor are any planned for 2024, that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2023, increased 4.95 percent to $1,204,276 from the December 31, 2022, total of $1,147,496. At December 31, 2022, total members' equity increased 70.94 percent from the December 31, 2021, total of $671,291. The 2023 increase was primarily attributed to net income earned during the year, net of various patronage related distributions and the net impact of capital stock/participation certificates issued/retired. See statement "Consolidated Statements of Changes in Members' Equity" in this Annual Report for further details.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. The capital regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity Tier 1 (CET1) capital, Tier 1 capital, and total capital risk-based ratios. The regulations also include a Tier 1 leverage ratio which includes an unallocated retained earnings (URE) and URE equivalents (UREE) component. The permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

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

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

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

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31,		
		2023	2022	2021
Risk-adjusted ratios:				
CET1 Capital	7.00%	15.40%	16.25%	19.53%
Tier 1 Capital	8.50%	15.40%	16.25%	19.53%
Total Capital	10.50%	15.70%	16.63%	20.70%
Permanent Capital	7.00%	15.44%	16.31%	19.75%
Non-risk-adjusted:				
Tier 1 Leverage*	5.00%	16.61%	17.70%	20.91%
URE and UREE Leverage	1.50%	16.28%	17.34%	20.79%

* *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. For all periods presented, the Association exceeded the minimum regulatory standard for all of the applicable ratios. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements. See Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for further information concerning capital resources.

The change in the Association's Total Capital Ratio at December 31, 2023, was attributed to an increase in loan volume outstanding, as well as attributed to net income, net of patronage distribution, and an increase in the Association's capital stock and participation certificates outstanding.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $79,550 in 2023, $80,000 in 2022, and $80,500 in 2021.

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

- Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made;
- Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made; and
- Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young, Beginning and Small farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to serve the financing needs of YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit.

The following table outlines the number of borrowers, the number of YBS loans in the portfolio and the loan volume outstanding for the past two years. Please note: an individual borrower meeting multiple YBS criteria will be included in more than one category in the tables below.

	As of December 31, 2023 *(dollars in thousands)*			As of December 31, 2022 *(dollars in thousands)*		
	Number of Borrowers	**Number of Loans**	**Amount of Loans**	**Number of Borrowers**	**Number of Loans**	**Amount of Loans**
Young	5,491	8,354	$1,217,541	5,277	8,055	$1,137,861
Beginning	8,057	11,312	1,901,242	7,713	10,767	1,786,543
Small	12,781	17,582	2,056,734	12,980	18,036	2,064,762

For 2023, the Association's quantitative goals were to book 800 new young and/or beginning borrowing relationships, which meet one or more of the established criteria for designation as Young and/or Beginning. The goal for booking new business relationships (BEs) was achieved as evidenced by the following table:

New BEs	1,695
Young BEs	544 or 32.1% of the total
Beginning BEs	828 or 48.8% of the total
Small BEs	888 or 52.4% of the total

The overall goal of 800 new business relationships or greater being designated either Young and/or Beginning was achieved as 1,372 qualified as Young and/or Beginning.

The 2017 USDA Ag Census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that of those farms in our Association territory, 15.6 percent were Young, 28.7 percent were Beginning, and 87.3 percent were Small. Comparatively, as of December 31, 2023, the demographics of the Association's agricultural portfolio contained 19,404 borrowers, of which by definition 4,985 or 25.7 percent were Young, 7,239 or 37.3 percent were Beginning, and 11,646 or 60.0 percent were Small.

There are slight differences between the USDA Census data (Census) and the Association's YBS information as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association's YBS information includes young farmers up to age 35;
- The Census shows years on present farms up to nine years, whereas the Association's YBS information includes 10 years or less for a beginning farmer; and
- The Census data is based upon Number of farms, whereas the Association's YBS information is based on Number of loans.

The working definitions of Young and Beginning include a criteria of borrower age and years farming while Small is defined by the level of agricultural sales. With the passage of time, existing borrowers will move out of these two categories regardless of any operational changes or lending activities.

During 2023, the Association successfully implemented the **Grow Ahead program** to focus on the needs of Young, Beginning and Small farmers. You can learn more about the **GrowAhead** program at ***www.horizonfc.com/growahead***.

The **Grow Ahead** program includes several outreach and educational efforts targeted to Young, Beginning and Small (YBS) farmers. One part of this program is **Ag Biz Masters**, an interactive learning series designed specifically for young and beginning farmers that has been in place since 2010. **Ag Biz Masters** focuses on everything from strategic business planning to marketing to the importance of creating a business plan and is offered to both members and prospects fitting this segment. You can read more about **Ag Biz Masters** at ***www.agbizmasters.com***.

Another part of the program is the **Farmer on the Rise** award competition for beginning farmers with three to ten years of farming experience. This award program honors outstanding farmers within the diverse agricultural community who excel in their field. Winners are selected based on projects to grow or invest in their farm while showcasing their efforts in agriculture, financial character, leadership, community involvement, and environmental stewardship. You can read more about the **Farmers on the Rise** program on the Association's website, ***https://www.horizonfc.com/rise***.

The **JumpStart** grant program is an annual grant offering to help grow a new generation of farmers and help jumpstart their way into farming. This start up grant program is offered to beginning farmers with two years or less of experience or planning to start farming in the next two years. If you are a beginning farmer returning to a family operation, you must be starting a new venture or enterprise to be considered a startup farmer. The grant program application is paired with the submission of a business plan and the completion of the Ag Biz Basics educational requirement.

The Association remains committed to supporting a variety of YBS industry related events, sharing staff expertise at external educational workshops, and developing content to help encourage lifelong learners among YBS farmers.

In addition to our **Grow Ahead** program, Horizon also supports an equipment financing point of sale program, Farm Credit ***EXPRESS***. This program, supported through local equipment dealers within our territory, has further enhanced the YBS service of the Association. The Farm Credit ***EXPRESS*** program has also helped to increase sales by local equipment dealers, which promotes economic growth in our rural communities. The Farm Credit ***EXPRESS*** program has been expanded whereby the Association processes equipment financing applications for all of the other associations in the AgFirst District, which enables those associations to further serve YBS borrowers in their territories. The Association has the goal of serving YBS through extensive outreach programs that include activities in marketing, education, training, and financial support. The Association continued previously sponsored outreach activities in which the Association participated for the purpose of promoting and supporting YBS efforts, as well as incorporated new outreach/sponsorships to continue building the Association's commitment to YBS.

The Association continues its participation in specific credit programs and partnerships that we have developed to help small farmers, young farmers and farmers just starting out. It includes programs offered by the Farm Service Agency (FSA), such as guaranteed and direct loans to qualifying borrowers. The Association has earned the distinction of a "preferred lender," the highest status designated by FSA.

In addition to FSA guaranteed loans, the Association is also a Guaranteed Participating Lender for the Small Business Administration (SBA), which offers lending programs specifically for small borrowers, and also participates in a number of State lending programs that promote the agriculture industry and environmental stewardship. The Association also offers flexible financing options in-house for qualifying borrowers.

The Association remains fully committed to serving the financing needs of YBS borrowers and will continue to evaluate its programs and efforts in order to be even more effective. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the Board of Directors on a quarterly basis. The Association is committed to the future success of Young, Beginning and Small farmers.

REGULATORY MATTERS

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

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

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

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

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

NOTICE OF SIGNIFICANT EVENTS

The Association evaluated subsequent events and determined that, other than disclosed in Note 15, *Subsequent Events*, of the Notes to the Consolidated Financial Statements, there were no other events requiring disclosure through March 7, 2024, which was the date the financial statements were issued.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity as of December 31, 2023:

Street Address	City, State & Zip Code	Description	Form of Ownership
300 Winding Creek Boulevard	Mechanicsburg, PA 17050	Headquarters	Owned
1614 E. Churchville Road, Suite 102	Bel Air, MD 21015	Branch Operations	Rented
610 Evans City Road	Butler, PA 16001	Branch Operations	Owned
109 Farm Credit Drive	Chambersburg, PA 17202	Branch Operations	Owned
112 East Liberty Street	Charles Town, WV 25414	Satellite Office	Rented
102 Morgnec Road	Chestertown, MD 21620	Branch Operations	Owned
1 Buffalo Street, Suite 3	Coudersport, PA 16915	Branch Operations	Rented
379 Deep Shore Road	Denton, MD 21629	Branch Operations	Owned
1410 South State Street	Dover, DE 19901	Branch Operations	Owned
925 North East Street	Frederick, MD 21701	Branch Operations	Owned
20816 DuPont Boulevard	Georgetown, DE 19947	Branch Operations	Owned
921 S. Center Avenue	Hunker, PA 15639	Branch Operations	Owned
450 International Drive	Lewisburg, PA 17837	Branch Operations	Owned
2322 Curryville Road	Martinsburg, PA 16662	Branch Operations	Owned
158 Crimson Circle	Martinsburg, WV 25403	Branch Operations	Owned
11555 State Highway 98	Meadville, PA 16335	Branch Operations	Owned
15 Eby Chiques Road	Mount Joy, PA 17552	Branch Operations	Owned
680 Robert Fulton Highway	Quarryville, PA 17566	Branch Operations	Owned
45 Sheetz Drive	Reedsville, PA 17084	Branch Operations	Owned
6546 Mid Atlantic Lane	Salisbury, MD 21804	Branch Operations	Owned
1513 Main Street	Shoemakersville, PA 19555	Branch Operations	Owned
24668 Route 6	Towanda, PA 18848	Branch Operations	Owned
45 Aileron Court	Westminster, MD 21157	Branch Operations	Owned
125 Prosperity Drive	Winchester, VA 22602	Branch Operations	Owned
1031 South Main Street	Woodstock, VA 22664	Branch Operations	Owned
South Main Street	Woodstock, VA 22664	Unimproved 1 acre lot	Owned
1434 Seven Valleys Road	York, PA 17408	Branch Operations	Owned

Rented facilities are leased by the Association at prevailing market rates from independent third parties for periods not currently exceeding five years. The Association leases excess space at two of its owned Branch Operations to third parties at prevailing market rates and expire no later than December 1, 2026.

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report 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 Association and their business experience for at least the past five years.

Name and Title	Current Position Start Date	Previous Positions
Thomas H. Truitt, Jr., *President & Chief Executive Officer*	July 2022	Predecessor association MidAtlantic Farm Credit: Chief Executive Officer from January 2016 through June 2022; Senior Vice President and Chief Operating Officer from July 2013 through December 2015; Senior Vice President and Regional Lending Manager from January 2009 through June 2013.
Cathy L. Blair, *Chief People Officer*	February 2024	Chief Administrative Officer from July 2022 through January 2024. Predecessor association MidAtlantic Farm Credit: Senior Vice President, Corporate Services from September 2017 through June 2022; Vice President for Administrative Services and Corporate Secretary from February 2016 through August 2017; previously served the Association in various other roles from May 2007 through January 2016.
Mark F. Kerstetter, *Chief Strategy Officer*	July 2022	Predecessor association AgChoice Farm Credit: Executive Vice President and Chief Operating Officer from July 2018 through June 2022; Chief Financial Officer from August 2014 through June 2018; Director of Capital Markets Lending from August 2014 through December 2015; Capital Markets Manager from 2011 to July 2014.
Gina M. Moshier, *Chief Transformation Officer*	February 2024	Chief Strategic Initiatives Officer from July 2022 through January 2024. Predecessor association AgChoice Farm Credit: Senior Vice President and Chief Administrative Officer from July 2018 through June 2022; Director of Organizational Effectiveness from August 2014 through June 2018; Operations/Project Manager from 2008 through July 2014.
Bessie H. Moy, *Chief Audit Executive*	July 2022	Predecessor association MidAtlantic Farm Credit: Chief Audit Executive from July 2019 through June 2022. Previous 15 years of experience included being the Vice President of Internal Audit for a community bank, Director of Internal Audit for an international non-profit, and Senior Manager in major international accounting firms.
Tammy L. Price, *Chief Enterprise Risk Officer*	February 2024	Chief Information Officer from July 2022 through January 2024. Predecessor association MidAtlantic Farm Credit: Senior Vice President of Technology and Strategic Partnerships from July 2019 through June 2022; Senior Vice President and Chief Information Officer from January 2009 through June 2019; previously served the Association in various positions in the Information Technology Department from July 2000 through December 2008.
Brian E. Rosati, *Chief Financial Officer*	July 2022	Predecessor association MidAtlantic Farm Credit: Chief Financial Officer from December 2018 through June 2022; Senior Vice President, Finance from October 2018 through November 2018. Vice President of Finance with a privately owned international advertising technology company from 2014 through October 2018. Director of Corporate Finance for a publicly traded software company from 2010 through 2014. Previous 12 years of experience are with major international accounting firms in audit and tax services.
William J. Rutter, *Chief Risk Officer*	July 2022	Predecessor association MidAtlantic Farm Credit: Chief Credit Officer from April 2017 through June 2022; Interim Chief Credit Officer from October 2016 through March 2017; previously served the Association in various credit and operations positions from August 1998 through September 2016.
Crystal A. Standish, *Chief Business Development Officer*	July 2022	Predecessor association AgChoice Farm Credit: Senior Vice President and Chief Sales and Marketing Officer from January 2014 through June 2022; Regional Sales Manager from 2012 through December 2013.
Karen S. Swecker, *Chief Operating Officer*	July 2022	Predecessor association MidAtlantic Farm Credit: Senior Vice President of Loan Operations from May 2020 through June 2022. Vice President, Relationship Manager with AgFirst Farm Credit Bank from 2017 through April 2020. Previously served predecessor association MidAtlantic Farm Credit for 11 years in various sales and operational roles.

Compensation

The total amount of compensation earned by the CEO and by all senior officers 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	Bonus	Change in Pension	Deferred/ Perquisites*(c)*	Total
Thomas H. Truitt, Jr.	2023	$ 670,738	$ 342,080	$ 358,538	$ 278,711	$ 1,650,067
Thomas H. Truitt, Jr.	2022	$ 621,726	$ 431,473	$ (227,319)	$ 168,790	$ 994,670
Thomas H. Truitt, Jr.	2021	$ 572,417	$ 341,293	$ (127,303)	$ 258,082	$ 1,044,487
9 Officers*(a)*	2023	$ 2,785,097	$ 855,416	$ 492,560	$ 898,930	$ 5,032,003
11 Officers	2022*(b)*	$ 2,692,306	$ 980,728	$ (704,415)	$ 512,424	$ 3,481,043
9 Officers	2021	$ 1,763,696	$ 505,184	$ 377,325	$ 708,473	$ 3,354,677

(a) Disclosure of information on the total compensation paid during 2023 to any senior officer is available to shareholders upon request.
(b) For 2022, the table includes annual compensation for 2 senior officers who retired in June 2022.
(c) The Deferred/Perquisites amounts disclosed in the above chart include deferred compensation, life insurance, employer 401(k) match, non-elective 401(k) contributions (see Note 9, Employee Benefit Plans, of the Notes to the Consolidated Financial Statements), sign-on bonus, payment of accrued annual leave, relocation assistance and Association provided automobile.

All of the senior officers of the Association participate in the Senior Management Incentive Plan. Goals are established annually by the Board of Directors based upon the Association's Annual Business Plan and include specific objectives regarding various Profitability objectives, Loan Growth, Credit Quality review, and a Board defined Qualitative measure. Award opportunity for the CEO ranges between 0 and 90% of base salary; between 0 and 65% for the Executive Vice Presidents; and 0 to 40% for all other Senior Vice Presidents. For the Chief Audit Executive, 20% of the incentive award is based on Association Performance and the remaining 80% is based on Personal Performance.

Forty percent of the annual incentive for all senior officers is deferred for three years and the deferred portion is at risk during the deferral period. Annual Performance objectives must be obtained during the deferral period. The amount of the deferred portion can increase by 50% and, conversely, can reduce to 0% if annual Association Performance is not achieved at prescribed levels.

All employees other than the CEO and senior officers are eligible to participate in the Staff Profit Sharing/Incentive Plan. The Staff Plan includes certain requirements regarding Profitability, Loan Growth, and certain regulatory requirements. Awards under the Plan are up to 15% for Association Performance and up to an additional 15% for individual performance for a maximum total of 30% of base salary.

Established targets for both plans are measured at December 31, 2023, so that bonuses can be accrued in the plan year. Payment of accrued bonuses is made by March 15 following the close of the plan year. For the deferred portion of senior officers' incentive, the payment is made by March 15 of the fourth year following the initial plan year.

The FCA regulation, "Disclosure to Shareholders; Pension Benefit Disclosures," requires the exclusion of employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. This has been reflected in the Associations compensation table.

Pension Benefits
As of December 31, 2023

Name of Individual or Number in Group	Number of Years of Credited Service	Actuarial Present Value of Accumulated Benefits[(2)]	Payments During Last Fiscal Year
Thomas H. Truitt, Jr., CEO, AgFirst Retirement Plan	31	$ 2,563,552	$ –
Total		$ 2,563,552	$ –
Senior Officers (excluding CEO)[(1)]	–	$ –	$ –
Supplemental Executive Retirement Plan	–	$ –	$ –
AgFirst Retirement Plan	25	$ 2,648,310	$ –
Total		$ 2,648,310	$ –

[(1)] *Deferred Benefits Plan.*
[(2)] *The Present Value of Accumulated Benefits is based upon assumptions and valuation dates that are the same as those used for the valuation of pension liabilities in the 2023 Annual Report, see Note 9, Employee Benefit Plans.*

Retirement and Deferred Compensation Plans

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

Employees hired prior to January 1, 2003, participate in the AgFirst Farm Credit Retirement Plan which is a non-contributory defined benefit plan. Benefits under this plan are determined by a formula based on years of service and eligible compensation. Employees are eligible to retire and begin receiving unreduced pension benefits at age 65 or when years of service plus age equals "85". Upon retirement, annual payout is 2.0 percent of the highest three years of average salary, not including incentives, times years of credited service, subject to the Internal Revenue Code limitations.

Employees hired on or after January 1, 2003, but prior to November 4, 2014, participated in the AgFirst Farm Credit Cash Balance Retirement Plan. This plan was a qualified defined contribution pension plan. The Plan was terminated as of December 31, 2015, and vested benefits of the plan were distributed to plan participants in 2017 after plan termination approval by the Internal Revenue Service.

All employees are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan that has an employer matching contribution determined by the employee's date of employment. Employees hired prior to January 1, 2003, receive a maximum employer matching contribution equal to $0.50 for each $1.00 of employee compensation contributed up to 6.0 percent, subject to Internal Revenue Code limitations on compensation. Employees hired on or after January 1, 2003, receive a maximum employer matching contribution equal to $1.00 for each $1.00 of employee compensation contribution up to 6.0 percent, and beginning January 1, 2015, employees hired on or after January 1, 2003, also received an employer nonelective contribution equal to 3.0 percent of employee compensation, subject to the Internal Revenue Code limitation on compensation.

Senior officers and other highly compensated employees may participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a non-qualified deferred compensation plan. The purpose of the plan is to allow those employees to defer income taxes on a portion of their compensation until retirement or separation from the Association and to restore benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan includes a provision for discretionary contributions by the Association.

Employees who choose to defer a portion of their compensation may defer part or all of their base salary or incentive.

Also, all employees are eligible to receive rewards (a) based on years of service on five year, or multiple of five year, anniversaries, and (b) based on special exemplary performance as defined in the plan. A copy of these plans are available to shareholders upon request.

Directors

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

The aggregate amount of reimbursement for travel, subsistence, and other related expenses for all directors as a group was $780,267 for 2023, $547,598 for 2022 and $342,314 for 2021. The Association provides computer equipment to the directors to provide for an electronic means of communication. Expenses for the equipment are accounted for in accordance with the Association's equipment policy.

Subject to approval by the board, directors are compensated for meeting attendance and special assignments. As of December 31, 2023, an honorarium of $800 per day is paid for meetings, committee meetings, training, events, and special assignments. For participation in the regional customer advisory committee meetings and the regional annual customer events, an honorarium of $300 and $325, respectively, is paid.

In addition to the honoraria, as of December 31, 2023, directors are paid a quarterly retainer fee of $7,500, the Chair and Vice Chair are paid an additional $10,000 and $7,000, respectively, and committee Chairs receive an additional $5,000. Directors are compensated at a per hour rate of $20 for travel time to Board meetings in excess of two hours, in addition to mileage and travel related expenses.

The following chart details the current term of expiration, the number of meetings, current committee assignments, additional compensation paid for other activities, and total cash compensation paid during 2023 for each director.

		Days Served				
Name of Director	Current Term Expiration	Board Meetings	Other Official Activities	Committee Assignments	Compensation for Other Activities*	Total Compensation
David R. Smith, *Chair*	2027	9	51	Audit & Executive	$ 39,400	$ 83,600
Michael S. Nelson, *Vice Chair*	2026	9	28	Risk & Executive	25,900	68,100
Paul D. Baumgardner	2024	9	22	Risk	17,100	54,300
Julie A. Bolyard	2025	8	31	Risk	24,000	60,400
Samuel BowerCraft, *Appointed and Outside*	2024	9	24	Audit	18,700	55,900
Brian L. Boyd	2026	9	48	Compensation & Governance and Executive	37,500	74,700
Kevin D. Grim	2027	9	22	Audit	16,700	53,900
Steven H. Gross, Jr.	2023	5	20	Risk	15,000	41,500
John Travis Hastings	2027	9	26	Compensation & Governance	19,800	57,410
Laura M. Heilinger	2024	9	36	Compensation & Governance	28,300	65,500
Monica E. Hepler	2027	1	1	Risk	800	4,100
Anthony M. Ill, *Appointed and Outside*	2025	9	35	Risk	27,500	64,700
William K. Jackson	2024	9	17	Risk	12,600	50,060
T. Jeffrey Jennings	2023	8	23	Compensation & Governance	18,400	54,800
Sharon L. McClellan	2026	9	36	Audit	28,300	66,040
Jay C. McGinnis	2027	1	1	Audit	800	4,100
Carl W. Metzgar	2026	9	20	Risk	16,000	53,500
Fred R. Moore, Jr.	2025	9	23	Audit	17,900	55,100
Sam T. Parker	2026	8	25	Compensation & Governance	20,000	56,610
Brian L. Reiff	2027	1	1	Risk	800	4,100
Jennifer L. Rhodes	2024	9	31	Risk	23,900	61,270
Paul H. Schmidt	2024	9	29	Compensation & Governance	23,000	60,200
Larry A. Seibert, *Appointed and Outside*	2023	8	18	Audit	14,400	50,800
Richard D. Shuman	2025	9	36	Compensation & Governance	28,300	70,540
Charles F. Ulmer	2024	9	16	Compensation & Governance	12,800	50,000
Christine Waddell	2024	9	26	Compensation & Governance	19,800	57,700
Shawn D. Wolfinger	2023	8	50	Executive	38,600	85,600
Charles M. Wright IV	2027	9	30	Audit & Executive	24,000	66,520
Total		219	726		$ 570,300	$ 1,531,050

**Included in the Total Compensation amount.*

The following represents certain information regarding Association Directors who served during 2023 and their principal occupations during the past five years:

David R. Smith*, Board Chair,* is the owner and operator of a dairy and crop farm on 360 acres and consisting of 150 dairy replacement heifers. David serves as Executive Director of the Pennsylvania Dairymen's Association and Board member of the Penn State Ag Council. He also serves as a member of the Pennsylvania Farm Bureau, the Pennsylvania Holstein Association, Holstein Association USA, and the Lebanon County Farm Bureau.

Michael S. Nelson*, Vice Chair,* is the president of Nelson's Agri-Service, LLC, operating in seed sales. As well, he is the owner/operator at Triple Creek Farm, consisting of row crops with a total of 1,100 acres rented/owned, and a black angus cow/calf operation.

Paul D. Baumgardner owns Baumgardner's Hay and Straw, as well as the Harvest Barn Country Market. He also farms 400 acres, growing corn, soybeans, hay, wheat, as well as produce and proteins for the Market.

Julie A. Bolyard is a third-generation producer, owning and operating Fruit Meadow Farms with her husband, where they raise cattle and meat goats selling beef and chevon products locally. Ms. Bolyard also serves as the Chief Financial Officer for her family's business, Appalachian Orchard Company, a 550-acre operation producing upwards of 300,000 bushels of apples annually. In addition, Ms. Bolyard serves on the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization.

Samuel BowerCraft*,* Appointed and Outside Director, is the principal consultant for Protenus Business Consulting, providing management consulting and risk advisory services to clients. Areas of focus include organizational improvement, strategic planning, risk management and cyber security consulting. He has significant experience in consulting and improving areas of financial reporting, operations, information systems and asset management.

Brian L. Boyd owns and operates a poultry production facility producing 860,000 broilers annually in four poultry houses on three different farms totaling 220 acres. He owns and operates Boyd's Custom Planting, covering 4,000+ acres per year planting soybeans and small grains. He also is the owner of Boyd Boys, LLC, and trucks commodities for a local feed mill. Assists and works alongside his sons through Boyd's BBQ doing chicken BBQ fundraisers and catering events. Partner of Elizabeth Farms, tree farm and venue in Lancaster, PA. In addition, he is a member of the PA Farm Bureau and serves on the South Lebanon Ag Land Preserve Committee.

Kevin D. Grim is a grain farmer and owner-operator of Shady Dell Farms, LLC, where he grows corn, soybeans, and wheat on 1,560 acres. He also custom plants and harvests for other farmers in his community. Mr. Grim also serves on the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization.

Steven H. Gross, Jr. owned and operated D&S Gross Cold Springs Farms, LLC, a dairy-beef, and crop operation, in partnership with his brother Dan and Steve's son, Lane. The operation starts and finishes Holstein and Angus-Holstein cross cattle and includes a cow-calf herd. Dan and Lane farm 2,200 acres of corn, soybeans, wheat, sunflowers, barley, hay, and cover crops, which are sold direct to customers. Steve was also a partner in a Purina feed store. He was the Chairman of the East Manchester Township Board of Supervisors, for which he served more than 25 years. Steve served on many local, county, state, and national agricultural committees over the last 30 years. A few highlights include the American Farm Bureau Young Farmer and Rancher Committee, the York County Farmland Preservation Board, the York County Farm and Natural Lands Trust Board of Directors and most recently, the York County Agricultural Society Board which oversees the York State Fair. It is with great sadness that we announce the passing of our Board member, Steven H. Gross, Jr. Mr. Gross passed away unexpectedly on September 3, 2023. We are grateful for his years of leadership as a Director of Farm Credit, and will forever appreciate the impact he has made on our Association.

John Travis Hastings is the owner of Lakeside Farms. Lakeside Farms is a grain, produce, and processing vegetable operation located in Laurel, Delaware. Travis also owns Lakeside Transportation, a school bus transportation business servicing the Laurel School District. In addition, Travis serves as a board member on the Laurel Grain Company, MarDel Watermelon Association, the Sussex County Board of Adjustment, and the Delaware Prosperity Partnership. Mr. Hastings also serves on the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization.

Laura M. Heilinger is a co-owner of Heilinger Farms, LLC, with her husband. Heilinger Farms is a dairy and grain operation consisting of 140 Brown Swiss and Holstein cows, and 350 acres of corn, alfalfa, soybeans, and some small grains. Ms. Heilinger also serves on the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization.

Monica E. Hepler along with her husband, owns and operates Hepler Meats slaughter and packing house. They also run a 130 head cow-calf operation. The beef they raise is direct marketed through their retail stores. In addition to processing beef for themselves, they USDA slaughter for several other local butcher shops as well as hundreds of local farmers. Wild game processing is also a large part of their business. In 2022, they processed over 1,800 deer. Ms. Hepler also operates the Hepler Management Co., that encompasses two Air B&B rentals on Lake Erie. She also manages her husband's Lake Erie walleye fishing charter business.

Anthony M. Ill*,* Appointed and Outside Director, is a Certified Public Accountant holding an active license in the state of Maryland. Mr. Ill is the founder of Rock Glenn Advisors, a consulting practice focusing on the financial, operational, and strategic aspects of business and has served as an interim CFO for a variety of companies in transition. His other recent professional experience includes Chairman of the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization, and Chief Financial and Operating Officer for Ripken Baseball. Mr. Ill has held various senior positions such as President, CFO, and COO with firms in advertising, agricultural pesticides and herbicides, machine tooling, and heavy utility equipment business sectors. Current clients include high-tech startups in the fields of computing and telecommunications.

William K. Jackson is a partner in Jackson Farms, a dairy that milks 150 cows and grows corn, soybeans, and alfalfa on 900 acres. He is also president of Jackson Farms 2, LLC, which operates an on-farm dairy product processing plant and convenience store. He is president of Jackson Farms 3, LLC, and managing partner of Jackson Farms, LP, which manage natural gas holdings. Mr. Jackson also serves on the AgFirst Farm Credit Bank Board of Directors and the national Farm Credit Council Board. Days of service disclosed here for Mr. Jackson as a member of the Horizon Board do not reflect activities in his capacity as a member of the AgFirst Board and committees or the national Farm Credit Council Board. For further information related to specific duties, compensation, and days served in those positions, please see the AgFirst Farm Credit Bank 2023 Annual Report at ***www.agfirst.com***.

T. Jeffery Jennings operates a farm consisting of 100 head of beef cows. He owns 500 acres and raises corn, soybeans, barley, hay, and timber. He is a member of the Page and Rockingham County Farm Service Agency Committee. Mr. Jennings is a Board member of Page Cooperative Farm Bureau and Board member of Page County Farmers Association. He is also a Lay Leader at Luray United Methodist Church.

Sharon L. McClellan owns and operates along with her husband two 2,100 head finishing hog barns on contract with Country View Family Farms and has a 175-acre (owned/rented) grass hay operation. She is owner/business manager of Troy Auto Supply Inc. (a NAPA Auto Parts store), co-owner/accounts manager for McClellan Farms Inc., and works per diem for a dental office.

Jay C. McGinnis is a fifth-generation owner/operator of a 1,000-acre crop farm where he farms corn, soybeans, and hay along with custom planting and harvesting. He, along with his wife Nicole, also operate a 170 head cow-calf beef operation focused on providing affordable beef and donations to those in need. Mr. McGinnis has served on the Baltimore County FSA board and as an associate on the Baltimore County Soil Conservation District.

Carl W. Metzgar owns/operates, Metzgar Cattle Co, a cow-calf beef operation with ancillary crop farm on approximately 720 acres. He is founding member of Metzgar & Metzgar LLC (law firm) and a Representative in the Pennsylvania General Assembly where he served on the Agriculture, Energy and Commerce committees. He formerly chaired the House Local Government Committee, the Mining Subcommittee, and the Pennsylvania House Liquor Control Committee. He is currently Chairman of the Pennsylvania House Professional Licensure Committee, House Appointee to the Pennsylvania Broadband Authority and a member of the Pennsylvania House Ethics Committee.

Fred R. Moore, Jr. owns and operates Fred R. Moore & Son, Inc., and Collins Wharf Sod, consisting of a 1,110-acre turf production and grain operation. In addition, he is a partner in a land holding and rental management firm. He also serves on the boards of the Wicomico County Farm Bureau and the Wicomico County Soil Conservation District, and is a life member of the Allen Fire Company. He also serves on the Board, governance, and Chair of the compensation committee of the AgFirst Farm Credit District Bank, and on the AgFirst District Farm Credit Council Board. Days of service disclosed here for Mr. Moore as a member of the Horizon Board do not reflect activities in his capacity as a member of the AgFirst Board and committees or the AgFirst Farm Credit Council Board. For further information related to specific duties, compensation, and days served in those positions, please see the AgFirst Farm Credit Bank 2023 Annual Report at ***www.agfirst.com***.

Sam T. Parker is an eighth-generation farmer, and along with his wife is owner and operator of a poultry, grain, and vegetable operation on 600 acres, raising roughly 1.5 million chickens annually. He has been employed by Mountaire Farm for 28 years, serving in a variety of roles within processing, live operations, and grain. He is a member of the Delmarva Chicken Association, Maryland Farm Bureau, Maryland Grain Producers Association, American Soybean Association, Mar-Del Watermelon Association, Wicomico East-Side Chamber of Commerce, FFA Alumni Association, Grain Elevator and Processing Society, and the Salisbury Elks Club.

Brian L. Reiff is owner and manager of ProFence LLC in Shippensburg, PA. He owns and rents a total of 270 acres of crop farm where he farms corn, beans, hay, and wheat, and manages Custom Cattle Backgrounding operation. He also assists his father with his Angus cattle feedlot and 700 acres of crops. Mr. Reiff stays involved in local charity projects through church for the local community and abroad.

Jennifer L. Rhodes owns and operates Deerfield Farms LLC, and Hillsdale Farm, LLC, a poultry, grain, and woodland operation with her two sons. The farms consist of 380 owned acres including a four-house chicken farm producing organic broilers and cropland producing corn, wheat, soybeans, cover crops, conservation areas, and a managed forest. She is also employed as the Principal Agent for Agriculture and Food Systems, University of Maryland Extension, Queen Anne's County, Maryland. She is the Chair of the AgFirst Bank District Legislative Advisory Committee and represents the AgFirst Bank District on the national Farm Credit Council Board. She serves on the following organizations' board of directors: Compass Regional Hospice, Delmarva Chicken Association, US Roundtable for Sustainable Poultry & Eggs, Mid-Shore Community Foundation, County Farm Bureau; Queen Anne's Soil Conservation District, and Dean's Global Leadership Council for UMD AGNR. She also serves on the Delmarva Land and Litter Challenge Steering Committee and is the past Chair of the USDA MD State Farm Service Agency Committee, past President of the Delmarva Poultry Industry, Inc, and the Maryland Association of County Agricultural Agents.

Paul H. Schmidt owns and manages Faithview Farm, a dairy operation on 525 acres, where he grows his own feed, raises heifers and milks 175 cows. Mr. Schmidt also has a custom harvesting and ag bag machine rental business.

Larry A. Seibert, Appointed and Outside Director, retired as a regional manager for the Ben Franklin Technology Partners of Northeast Pennsylvania in 2017. He holds a Master of Science in Education degree from Bloomsburg University. Mr. Seibert serves as a board member of Core Business Solutions, a board member of the Central Keystone Council of Governments, a member of the tax consolidation committee for Northumberland County and a township supervisor for White Deer Township. He previously served on the board of directors of the Susquehanna Economic Development Association – Council of Governments as the treasurer and chair of the finance committee.

Richard D. Shuman is an owner and operator of RD Shuman Farms. The farm consists of 750 acres, 92 of which are owned and 658 are rented. He is a grain farmer, raises dairy replacements and feeder beef. He does custom harvesting on an additional 200 acres and supports his parents' 500-acre operation with some management decisions. The operation expanded into contract vegetables for a cannery in 2020 and looks to continue that enterprise into the future. Rich's wife Deb is a high school math teacher, and they have two children, Steven a machinist by trade and 10th generation to help operate the farm. A daughter, Courtney is attending college at Penn State Main studying animal science. The family has been involved in 4-H for decades. Rich serves as a Trustee of Mainville Volunteer Fire Department and volunteer firefighter. His past leadership roles include being a Township Supervisor, County Farm Service Committee Vice Chair, Pennsylvania Farm Bureau County Vice President, PFB State Board member and American Farm Bureau YF&R committee member.

Charles F. Ulmer owns a grain and forage operation, farming 2,100 acres. In addition, Mr. Ulmer owns three dairy facilities, providing young and beginning farmers the opportunity to start a career in agriculture.

Christine Waddell owns and operates Apple Shamrock Dairy Farms, LLC, with her husband, Rob, and son, Josh. They currently milk 1,300 Holsteins and grow crops on 3,000 acres, including corn, soybeans, alfalfa, and orchard grass. Ms. Waddell actively promotes the dairy industry through her work with the Dairy Princess Program, speaker's bureau and offering tours to local school children.

Shawn D. Wolfinger is an owner of Timberwolf Lands, LLC. Mr. Wolfinger and his father also own Northern Forests, LLC. These forestry consulting companies provide timber sales for clients in northern Pennsylvania and western New York. They also manage several thousand acres of family-owned land through Wolfinger Timberlands, LLC, and Wolfinger Holdings, LLC. He is active in the local community, serving on the Potter County Housing and Redevelopment Authority board of directors. He is a member of the Pennsylvania Forest Products Association, Pennsylvania Farm Bureau, Northcentral Pennsylvania Forest Landowners Association, Potato Creek Trail Association, Coudersport Golf Club, and volunteers as a member of the Big 30 Football All Star Selection Committee.

Charles M. Wright IV is owner and President of Cornerstone Farms Inc. t/a Wright's Market, a family owned and managed farm market, vegetable and cash grain operation consisting of 850 acres. He is also co-owner, with his wife, of MC Farms a poultry farm producing 210,000 broilers annually. Mr. Wright is the past President of the Wicomico County Farm Bureau, where he remains a director, serves on the Executive Board of the Mar-DEL Watermelon Association, and is a member of the Salisbury Chamber of Commerce.

Board of Director Committees

Our Board of Directors is organized into the following committees to carry out Board responsibilities. Committee members are appointed by the Board Chair.

- The Audit Committee fulfills oversight responsibilities in relation to the quality of financial reporting and internal controls including those relating to accounting and reporting practices of the Association; those relating to the internal and external auditor; and to serve as an independent and objective party to review the financial information presented by management to shareholders, regulators, and the general public. The Committee also oversees the adequacy of management's actions with respect to recommendations arising from auditing activities.

- The Compensation and Governance Committee addresses issues of Board governance and the Board's continuing efforts to strengthen and renew the Board, manages the Board annual self-assessment, oversees and provides overall direction and/or recommendations for compensation, training and education of Board members, the outside director election process, director compensation, ethics and conflict of interest matters, human resource performance management programs, and assists the Board of Directors in fulfilling its responsibilities concerning evaluation, development, and compensation of the CEO.

- The Risk Committee oversees the integration of risk management activities throughout our organization. Committee members review ongoing risk assessments of current and emerging risks to ensure adequate planning and resources are directed at managing the identified risks. The Committee also establishes and promotes an effective risk culture throughout our organization.

- The Executive Committee members consist of the Board Chair, Vice Chair and generally the immediate past Board Chair and Chairs of the other three committees. Additional members may be engaged by the Committee for consolation to better ensure geographic representation, diversity, and subject matter expertise. The committee is primarily responsible for providing input and direction to management on the development and implementation of the Association's strategic plan, policies, and other significant matters requiring attention between board meetings.

Nominating Committee

Each year, four customers from each of Horizon Farm Credit's seven election regions are elected by voting members to serve on the Nominating Committee. The Nominating Committee meets each spring to nominate candidates for open Director and Nominating Committee positions. This committee, which consists of customers who are not seated on the Board of Directors, proactively identifies qualified candidates for Board membership and reviews director nominations, helping to ensure that the Association continues to attract a highly qualified and diverse Board. The Nominating Committee makes a best effort to recommend at least two candidates for each open Board position. Members of this committee are compensated for their time and travel.

Please note: the board took action in 2023 to change the number of customers from each of Horizon Farm Credit's seven election regions elected by voting stockholders to serve on the Nominating Committee to two customers to be effective in 2024.

Unincorporated Business Entities

The Association was a minority partner in Crop Growers, LLP, which provides multi-peril crop insurance as an agent. The agreement ended in 2022.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

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

For the year ended December 31, 2023, the Association paid fees and expenses of $271 for audit services rendered by its independent auditors, PicewaterhouseCoopers LLP, (PwC). No other fees were paid to PwC. Audit services rendered increased 80.67 percent principally due to the Merger as compared to December 31, 2022.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 7, 2024, and the report of management, which appear in this Annual Report to shareholders, are incorporated herein by reference. Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-888-339-3334 or writing Brian Rosati, Horizon Farm Credit, ACA, 300 Winding Creek Boulevard, Mechanicsburg, PA 17050, or accessing the website, ***www.horizonfc.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

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

Whistleblower

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline at 1-833-220-9773 or a link to the website is available at ***www.horizonfarmcredit.ethicspoint.com***.

Privacy Policy

Your privacy is a top priority in all aspects of our business. Our employees are informed of their responsibility to protect your confidential information and are governed by strict standards of conduct, which prohibit unauthorized use of your information. Security procedures and internal controls are also in place to protect your privacy.

We collect personally identifiable information (name, address, SSN) only if specifically and knowingly provided by you. We do not give, sell, or transfer any personal information to third parties, unless required by law or under such other permissible purposes as set forth by regulation.

For more details, visit ***www.horizonfc.com/privacy-security***.

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee are employees of Horizon Farm Credit (Association) and in the opinion of the Board of Directors', each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

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

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 2023, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards AU-C 260 and 265 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from Horizon Farm Credit. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

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

Kevin D. Grim
Chair of the Audit Committee

Members of the Audit Committee

Sharon L. McClellan
Vice Chair

Anthony M. Ill
William K. Jackson
Michael S. Nelson
Paul H. Schmidt
Christine Waddell
Charles M. Wright IV

March 7, 2024

Report of Independent Auditors

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

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Other Information

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

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

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 7, 2024

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2023	2022	2021
Assets			
Cash	**$ 32**	$ 24	$ 344
Loans	**6,612,361**	6,055,951	3,040,890
Allowance for loan losses	**(17,283)**	(23,306)	(30,280)
Net loans	**6,595,078**	6,032,645	3,010,610
Loans held for sale	**5,372**	22	1
Other investments	**1,018**	452	303
Accrued interest receivable	**37,311**	28,833	13,092
Equity investments in other Farm Credit institutions	**105,628**	75,269	27,177
Premises and equipment, net	**28,670**	28,336	14,865
Other property owned	**925**	1,095	1,368
Accounts receivable	**45,045**	36,936	48,560
Other assets	**5,116**	5,418	3,963
Total assets	**$ 6,824,195**	$ 6,209,030	$ 3,120,283
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 5,474,772**	$ 4,910,198	$ 2,338,902
Accrued interest payable	**19,988**	14,099	4,396
Patronage refunds payable	**79,629**	91,144	80,575
Accounts payable	**13,046**	17,950	5,222
Advanced conditional payments	**14**	870	67
Other liabilities	**32,470**	27,273	19,830
Total liabilities	**5,619,919**	5,061,534	2,448,992
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**21,470**	21,883	11,814
Additional paid-in-capital	**267,216**	267,216	—
Retained earnings			
Allocated	**619,254**	586,676	407,650
Unallocated	**296,483**	271,819	252,262
Accumulated other comprehensive income (loss)	**(147)**	(98)	(435)
Total members' equity	**1,204,276**	1,147,496	671,291
Total liabilities and members' equity	**$ 6,824,195**	$ 6,209,030	$ 3,120,283

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2023	2022	2021
Interest Income			
Loans	**$ 397,315**	$ 234,395	$ 129,173
Interest Expense	**221,950**	108,347	51,449
Net interest income	**175,365**	126,048	77,724
Provision for (reversal of) allowance for credit losses	**1,382**	(7,001)	(5,000)
Net interest income after provision for (reversal of) allowance for credit losses	**173,983**	133,049	82,724
Noninterest Income			
Loan fees	**2,458**	1,749	1,805
Fees for financially related services	**8,139**	4,355	3,834
Patronage refunds from other Farm Credit institutions	**43,172**	54,221	48,213
Gains (losses) on sales of rural home loans, net	**96**	806	1,414
Gains (losses) on sales of premises and equipment, net	**451**	323	320
Gains (losses) on other transactions	**(363)**	272	259
Other noninterest income	**97**	152	194
Total noninterest income	**54,050**	61,878	56,039
Noninterest Expense			
Salaries and employee benefits	**59,930**	46,457	34,524
Occupancy and equipment	**3,548**	2,973	2,027
Insurance Fund premiums	**9,314**	7,056	3,543
Purchased services	**4,198**	3,570	1,821
Data processing	**2,090**	1,340	730
Other operating expenses	**16,755**	12,445	6,776
(Gains) losses on other property owned, net	**(50)**	(176)	(17)
Total noninterest expense	**95,785**	73,665	49,404
Income before income taxes	**132,248**	121,262	89,359
Provision for income taxes	**533**	791	366
Net income	**$ 131,715**	$ 120,471	$ 88,993
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(49)**	397	60
Comprehensive income	**$ 131,666**	$ 120,868	$ 89,053

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 11,400	$ —	$ 405,105	$ 249,314	$ (495)	$ 665,324
Comprehensive income				88,993	60	89,053
Capital stock/participation certificates issued/(retired), net	414					414
Patronage distribution						
Cash				(80,500)		(80,500)
Nonqualified retained earnings			622	(622)		—
Patronage distribution adjustment			1,923	(4,923)		(3,000)
Balance at December 31, 2021	$ 11,814	$ —	$ 407,650	$ 252,262	$ (435)	$ 671,291
Comprehensive income				120,471	397	120,868
Capital stock/participation certificates issued/(retired), net	139					139
Patronage distribution						
Cash				(80,000)		(80,000)
Nonqualified retained earnings			18,159	(18,159)		—
Equity re-characterized due to merger	9,930	267,216	161,489		(60)	438,575
Patronage distribution adjustment			(622)	(2,755)		(3,377)
Balance at December 31, 2022	$ 21,883	$ 267,216	$ 586,676	$ 271,819	$ (98)	$ 1,147,496
Cumulative effect of change in accounting principle				**5,648**		**5,648**
Comprehensive income				**131,715**	**(49)**	**131,666**
Capital stock/participation certificates issued/(retired), net	**(413)**					**(413)**
Patronage distribution						
Cash				**(79,550)**		**(79,550)**
Nonqualified retained earnings			**29,851**	**(29,851)**		**—**
Patronage distribution adjustment			**2,727**	**(3,298)**		**(571)**
Balance at December 31, 2023	**$ 21,470**	**$ 267,216**	**$ 619,254**	**$ 296,483**	**$ (147)**	**$ 1,204,276**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2023	2022	2021
Cash flows from operating activities:			
Net income	**$ 131,715**	$ 120,471	$ 88,993
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**2,573**	1,869	1,402
Amortization (accretion) of net deferred loan costs (fees)	**1,120**	1,286	1,263
Amortization (accretion) of yield mark resulting from merger	**(8,710)**	(11,640)	—
Provision for (reversal of) allowance for credit losses	**1,382**	(7,001)	(5,000)
(Gains) losses on other property owned	**(34)**	(236)	(214)
(Gains) losses on sales of premises and equipment, net	**(451)**	(323)	(320)
(Gains) losses on sales of rural home loans, net	**(96)**	(806)	(1,414)
(Gains) losses on other transactions	**363**	(272)	(259)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(10,275)**	(39,308)	(66,269)
Proceeds from sales of loans held for sale, net	**4,554**	40,093	70,576
(Increase) decrease in accrued interest receivable	**(8,478)**	(4,783)	1,362
(Increase) decrease in accounts receivable	**(8,109)**	20,474	(5,213)
(Increase) decrease in other assets	**302**	1,029	(237)
Increase (decrease) in accrued interest payable	**5,889**	4,878	(34)
Increase (decrease) in accounts payable	**(4,904)**	7,351	1,034
Increase (decrease) in other liabilities	**4,511**	(2,324)	(6,932)
Total adjustments	**(20,363)**	10,287	(10,255)
Net cash provided by (used in) operating activities	**111,352**	130,758	78,738
Cash flows from investing activities:			
Net (increase) decrease in loans	**(533,661)**	(373,681)	(137,828)
(Increase) decrease in equity investments in other Farm Credit institutions	**(30,359)**	(25,735)	3,080
Purchases of other investments	**(566)**	(149)	(190)
Net cash acquired in business combination	**—**	7	—
Purchases of premises and equipment	**(3,074)**	(1,809)	(493)
Proceeds from sales of premises and equipment	**618**	541	477
Proceeds from sales of other property owned	**187**	1,006	876
Net cash provided by (used in) investing activities	**(566,855)**	(399,820)	(134,078)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**548,416**	351,774	109,739
Net increase (decrease) in advanced conditional payments	**(856)**	803	19
Capital stock and participation certificates issued/(retired), net	**(413)**	139	414
Patronage refunds and dividends paid	**(91,636)**	(83,974)	(54,716)
Net cash provided by (used in) financing activities	**455,511**	268,742	55,456
Net increase (decrease) in cash	**8**	(320)	116
Cash, beginning of period	**24**	344	228
Cash, end of period	**$ 32**	$ 24	$ 344
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 281**	$ 162	$ —
Receipt of property in settlement of loans	**269**	547	462
Estimated cash dividends or patronage distributions declared or payable	**79,550**	80,000	80,500
Cumulative effect of a change in accounting principle	**5,648**	—	—
Employee benefit plans adjustments (Note 9)	**49**	(397)	(60)
Acquisition-related transactions:			
Assets acquired	**—**	(2,683,052)	—
Liabilities assumed	**—**	2,244,477	—
Equity re-characterized due to merger	**—**	438,575	—
Supplemental information:			
Interest paid	**$ 199,903**	$ 91,906	$ 51,483
Taxes (refunded) paid, net	**515**	1,080	446

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Horizon Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to borrowers in the counties of Kent, New Castle and Sussex in the state of Delaware; counties of Baltimore, Caroline, Carroll, Cecil, Dorchester, Frederick, Harford, Howard, Kent, Montgomery, Queen Anne's, Somerset, Talbot, Washington, Wicomico and Worcester in the state of Maryland; counties of Adams, Allegheny, Armstrong, Beaver, Bedford, Berks, Blair, Bradford, Bucks, Butler, Cambria, Cameron, Carbon, Centre, Chester, Clarion, Clearfield, Clinton, Columbia, Crawford, Cumberland, Dauphin, Delaware, Elk, Erie, Fayette, Forest, Franklin, Fulton, Greene, Huntingdon, Indiana, Jefferson, Juniata, Lackawanna, Lancaster, Lawrence, Lebanon, Lehigh, Luzerne, Lycoming, McKean, Mercer, Mifflin, Monroe, Montgomery, Montour, Northampton, Northumberland, Perry, Philadelphia, Pike, Potter, Schuylkill, Snyder, Somerset, Sullivan, Susquehanna, Tioga, Union, Venango, Warren, Washington, Wayne, Westmoreland, Wyoming and York in the state of Pennsylvania; counties of Accomack, Clarke, Frederick, Northampton, Page, Shenandoah and Warren, in the state of Virginia; and the counties of Berkeley, Brooke, Hancock, Jefferson, Marshall, Morgan and Ohio in the state of West Virginia.

Effective July 1, 2022, AgChoice Farm Credit, ACA (AgChoice) merged into MidAtlantic Farm Credit, ACA (MidAtlantic) to form Horizon Farm Credit, ACA. See Note 14 for further information.

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

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

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

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

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for loan losses	$ 23,306	$ (5,639)	$ 17,667
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 1,500	$ (9)	$ 1,491
Retained earnings:			
Unallocated retained earnings	$ 271,819	$ 5,648	$ 277,467

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

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

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

Nonaccrual Loans

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

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

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

Accrued Interest Receivable

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral Dependent Loans

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

Allowance for Credit Losses

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

- the allowance for loan losses
- the allowance for unfunded commitments, which is presented on the Consolidated 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 Consolidated 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 Credit Losses on Loans
The allowance for loan losses represents management's estimate of credit losses over the remaining expected life of loans. Loans are evaluated on the amortized cost basis, including premiums, discounts and fair value adjustments.

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

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

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

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

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

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

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

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

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

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

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

Allowance for Credit Losses on Unfunded Commitments

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

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

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

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

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

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

Equity Investments in Other Farm Credit System Institutions

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

Other Equity Investments

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

The Association holds minority equity interests in Rural Business Investment Companies (RBICs). These investments are carried at cost less any impairment, plus or minus adjustments resulting from any observable price changes.

Other Investments

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

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

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

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

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

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

Additional information may be found in Note 9.

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

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

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

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

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

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

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

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

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

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

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

K. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

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

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

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

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

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

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

Additional information may be found in Note 8.

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

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

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

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

Additional information may be found in Note 14.

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

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

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

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Credit Losses

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31,		
	2023	**2022**	**2021**
Real estate mortgage	$ 3,658,033	$ 3,529,846	$ 2,000,305
Production and intermediate-term	1,509,903	1,454,345	758,322
Agribusiness:			
Loans to cooperatives	107,413	106,603	20,923
Processing and marketing	609,829	425,531	81,753
Farm-related business	149,179	132,515	53,564
Rural infrastructure:			
Communication	229,515	188,658	42,407
Power and water/waste disposal	186,574	66,369	725
Rural residential real estate	94,356	91,131	57,922
Other:			
International	62,479	55,563	24,969
Lease receivables	5,080	5,390	–
Total loans	$ 6,612,361	$ 6,055,951	$ 3,040,890

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

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

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

December 31, 2023

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 57,218	$ 2,917	$ 17,670	$ 5,874	$ –	$ –	$ 74,888	$ 8,791
Production and intermediate term	129,174	50,499	114,903	6,956	–	–	244,077	57,455
Agribusiness	105,970	96,879	302,643	42,708	126,729	–	535,342	139,587
Rural infrastructure	132,649	–	286,567	–	–	–	419,216	–
Other	19,376	–	48,628	–	–	–	68,004	–
Total	$ 444,387	$ 150,295	$ 770,411	$ 55,538	$ 126,729	$ –	$ 1,341,527	$ 205,833

December 31, 2022

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 60,674	$ 8,150	$ 15,456	$ 8,273	$ –	$ –	$ 76,130	$ 16,423
Production and intermediate term	125,473	57,255	85,618	4,560	–	–	211,091	61,815
Agribusiness	119,033	88,246	226,935	20,109	91,910	–	437,878	108,355
Rural infrastructure	77,775	–	182,278	–	–	–	260,053	–
Other	2,475	–	59,245	–	–	–	61,720	–
Total	$ 385,430	$ 153,651	$ 569,532	$ 32,942	$ 91,910	$ –	$ 1,046,872	$ 186,593

December 31, 2021

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 44,746	$ 3,134	$ 286	$ –	$ –	$ –	$ 45,032	$ 3,134
Production and intermediate term	56,024	73,391	19,339	2,284	–	–	75,363	75,675
Agribusiness	34,088	30,297	15,073	–	3,555	–	52,716	30,297
Rural infrastructure	17,243	–	25,984	–	–	–	43,227	–
Other	–	–	25,000	–	–	–	25,000	–
Total	$ 152,101	$ 106,822	$ 85,682	$ 2,284	$ 3,555	$ –	$ 241,338	$ 109,106

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

	December 31, 2023	2022*	2021*
Real estate mortgage:			
Acceptable	96.87%	96.64%	94.31%
OAEM	1.69	1.67	2.62
Substandard/doubtful/loss	1.44	1.69	3.07
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	96.45%	96.63%	94.86%
OAEM	1.99	1.55	2.65
Substandard/doubtful/loss	1.56	1.82	2.49
	100.00%	100.00%	100.00%
Agribusiness:			
Acceptable	96.97%	98.41%	94.50%
OAEM	2.15	0.66	5.49
Substandard/doubtful/loss	0.88	0.93	0.01
	100.00%	100.00%	100.00%
Rural infrastructure:			
Acceptable	97.66%	100.00%	100.00%
OAEM	2.34	0.00	0.00
Substandard/doubtful/loss	0.00	0.00	0.00
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	96.00%	96.97%	95.97%
OAEM	2.33	1.70	2.01
Substandard/doubtful/loss	1.67	1.33	2.02
	100.00%	100.00%	100.00%
Other:			
Acceptable	99.85%	99.90%	100.00%
OAEM	0.15	0.06	0.00
Substandard/doubtful/loss	0.00	0.04	0.00
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	96.86%	97.01%	94.61%
OAEM	1.85	1.44	2.71
Substandard/doubtful/loss	1.29	1.55	2.68
	100.00%	100.00%	100.00%

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

Accrued interest receivable on loans of $37,311, $28,833, and $13,092 at December 31, 2023, 2022, and 2021, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

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

December 31, 2023	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 23,132	$ 9,176	$ 32,308	$ 3,625,725	$ 3,658,033
Production and intermediate-term	10,926	7,407	18,333	1,491,570	1,509,903
Agribusiness	1,285	227	1,512	864,909	866,421
Rural infrastructure	–	–	–	416,089	416,089
Rural residential real estate	1,288	212	1,500	92,856	94,356
Other	18	–	18	67,541	67,559
Total	$ 36,649	$ 17,022	$ 53,671	$ 6,558,690	$ 6,612,361

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

	December 31, 2022				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 8,085	$ 11,366	$ 19,451	$ 3,527,129	$ 3,546,580
Production and intermediate-term	5,580	3,947	9,527	1,453,317	1,462,844
Agribusiness	4,043	10,285	14,328	652,702	667,030
Rural infrastructure	–	–	–	255,447	255,447
Rural residential real estate	1,296	142	1,438	90,000	91,438
Other	–	–	–	61,445	61,445
Total	$ 19,004	$ 25,740	$ 44,744	$ 6,040,040	$ 6,084,784

	December 31, 2021				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 7,957	$ 13,325	$ 21,282	$ 1,987,868	$ 2,009,150
Production and intermediate-term	3,226	4,574	7,800	754,348	762,148
Agribusiness	169	9	178	156,277	156,455
Rural infrastructure	–	–	–	43,152	43,152
Rural residential real estate	507	87	594	57,482	58,076
Other	–	–	–	25,001	25,001
Total	$ 11,859	$ 17,995	$ 29,854	$ 3,024,128	$ 3,053,982

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

	December 31, 2023
Nonaccrual loans:	
Real estate mortgage	$ 18,514
Production and intermediate-term	8,626
Agribusiness	287
Rural residential real estate	562
Total	$ 27,989
Accruing loans 90 days or more past due:	
Real estate mortgage	$ 1,173
Total	$ 1,173
Total nonperforming loans	$ 29,162
Other property owned	925
Total nonperforming assets	$ 30,087
Nonaccrual loans as a percentage of total loans	0.42%
Nonperforming assets as a percentage of total loans and other property owned	0.45%
Nonperforming assets as a percentage of capital	2.50%

	December 31, 2022*	December 31, 2021*
Nonaccrual loans:		
Real estate mortgage	$ 24,614	$ 28,474
Production and intermediate-term	7,316	8,540
Agribusiness	16	9
Rural residential real estate	544	625
Total	$ 32,490	$ 37,648
Accruing restructured loans:		
Real estate mortgage	$ 18,280	$ 21,745
Production and intermediate-term	3,554	4,957
Agribusiness	101	133
Rural residential real estate	455	472
Total	$ 22,390	$ 27,307
Accruing loans 90 days or more past due:		
Production and intermediate-term	$ 34	$ 220
Agribusiness	10,280	–
Total	$ 10,314	$ 220
Total nonperforming loans	$ 65,194	$ 65,175
Other property owned	1,095	1,368
Total nonperforming assets	$ 66,289	$ 66,543
Nonaccrual loans as a percentage of total loans	0.54%	1.24%
Nonperforming assets as a percentage of total loans and other property owned	1.09%	2.19%
Nonperforming assets as a percentage of capital	5.78%	9.91%

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

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

	December 31, 2023			Interest Income Recognized on Nonaccrual Loans
Nonaccrual loans:	**Amortized Cost with Allowance**	**Amortized Cost without Allowance**	**Total**	**For the Year Ended December 31, 2023**
Real estate mortgage	$ 7,090	$ 11,424	$ 18,514	$ 1,925
Production and intermediate-term	7,382	1,244	8,626	897
Agribusiness	287	–	287	30
Rural residential real estate	562	–	562	58
Total	$ 15,321	$ 12,668	$ 27,989	$ 2,910

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for Loan Losses:							
Balance at December 31, 2022	$ 9,679	$ 11,429	$ 1,722	$ 148	$ 264	$ 64	$ 23,306
Cumulative effect of a change in accounting principle	(873)	(4,956)	153	15	4	18	(5,639)
Balance at January 1, 2023	$ 8,806	$ 6,473	$ 1,875	$ 163	$ 268	$ 82	$ 17,667
Charge-offs	–	(1,297)	–	–	(1)	–	(1,298)
Recoveries	280	6	–	–	–	–	286
Provision for loan losses	(1,535)	1,491	441	210	4	17	628
Balance at December 31, 2023	$ 7,551	$ 6,673	$ 2,316	$ 373	$ 271	$ 99	$ 17,283
Allowance for Unfunded Commitments:							
Balance at December 31, 2022	$ 34	$ 847	$ 593	$ 13	$ –	$ 13	$ 1,500
Cumulative effect of a change in accounting principle	35	(68)	13	9	–	2	(9)
Balance at January 1, 2023	$ 69	$ 779	$ 606	$ 22	$ –	$ 15	$ 1,491
Provision for unfunded commitments	12	124	573	38	–	7	754
Balance at December 31, 2023	$ 81	$ 903	$ 1,179	$ 60	$ –	$ 22	$ 2,245
Total allowance for credit losses	$ 7,632	$ 7,576	$ 3,495	$ 433	$ 271	$ 121	$ 19,528
Allowance for Loan Losses*:							
Balance at December 31, 2021	$ 12,282	$ 15,941	$ 1,691	$ 66	$ 278	$ 22	$ 30,280
Charge-offs	–	–	(4)	–	(4)	–	(8)
Recoveries	14	20	1	–	–	–	35
Provision for loan losses	(2,617)	(4,532)	34	82	(10)	42	(7,001)
Balance at December 31, 2022	$ 9,679	$ 11,429	$ 1,722	$ 148	$ 264	$ 64	$ 23,306
Balance at December 31, 2020	$ 15,617	$ 18,333	$ 1,719	$ 117	$ 323	$ 22	$ 36,131
Charge-offs	(1,039)	(21)	–	–	(57)	–	(1,117)
Recoveries	155	111	–	–	–	–	266
Provision for loan losses	(2,451)	(2,482)	(28)	(51)	12	–	(5,000)
Balance at December 31, 2021	$ 12,282	$ 15,941	$ 1,691	$ 66	$ 278	$ 22	$ 30,280

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

To mitigate risk of loan losses, the Association has entered into Long-Term Standby Commitments to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under Long-Term Standby Commitments to Purchase held by the Association was $104, $134, and $200 at December 31, 2023, 2022, and 2021, respectively. Fees paid to Farmer Mac for such commitments totaled $1, $1, and $2 for 2023, 2022, and 2021, respectively.

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

Loans held for sale were $5,372, $22, and $1 at December 31, 2023, 2022, and 2021, respectively. Such loans are carried at the lower of cost or fair value.

Troubled Debt Restructurings

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

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

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
	Year Ended December 31, 2022*				
Pre-modification:					
Real estate mortgage	$ 756	$ 3,736	$ –	$ 4,492	
Production and intermediate-term	–	2,547	–	2,547	
Total	$ 756	$ 6,283	$ –	$ 7,039	
Post-modification:					
Real estate mortgage	$ 756	$ 3,766	$ –	$ 4,522	$ –
Production and intermediate term	37	2,560	–	2,597	–
Total	$ 793	$ 6,326	$ –	$ 7,119	$ –

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
	Year Ended December 31, 2021*				
Pre-modification:					
Real estate mortgage	$ 270	$ 12,843	$ –	$ 13,113	
Production and intermediate-term	360	8,003	–	8,363	
Rural residential real estate	–	81	–	81	
Total	$ 630	$ 20,927	$ –	$ 21,557	
Post-modification:					
Real estate mortgage	$ 266	$ 12,854	$ –	$ 13,120	$ –
Production and intermediate-term	372	8,093	–	8,465	–
Agribusiness	1	–	–	1	–
Rural residential real estate	–	96	–	96	–
Total	$ 639	$ 21,043	$ –	$ 21,682	$ –

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

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

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

Defaulted troubled debt restructurings	Year Ended December 31, 2022*	2021*
Real estate mortgage	$ –	$ 4,457
Production and intermediate-term	–	1,533
Rural residential real estate	–	91
Total	$ –	$ 6,081

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

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

	Total TDRs		Nonaccrual TDRs	
	December 31,		December 31,	
	2022*	2021*	2022*	2021*
Real estate mortgage	$ 29,761	$ 36,495	$ 11,481	$ 14,750
Production and intermediate-term	5,736	9,493	2,182	4,536
Agribusiness	101	142	–	9
Rural residential real estate	590	635	135	163
Total loans	$ 36,188	$ 46,765	$ 13,798	$ 19,458
Additional commitments to lend	$ 80	$ 23		

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

Note 4 — Investments

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $102,533 for 2023, $71,566 for 2022 and $24,497 for 2021. The Association owned 19.71 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled $45.0 billion and shareholders' equity totaled $1.7 billion. The Bank's earnings were $265 million for 2023. In addition, the Association had investments of $3,095 related to other Farm Credit institutions at December 31, 2023.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2023	2022	2021
Land	$ 5,527	$ 5,493	$ 2,776
Buildings and improvements	30,319	30,122	17,843
Furniture and equipment	14,037	12,378	8,835
	49,883	47,993	29,454
Less: accumulated depreciation	21,213	19,657	14,589
Total	$ 28,670	$ 28,336	$ 14,865

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank
Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2023, the Association's notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 6.34 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 6.23 percent for Prime-based loans, and the weighted average remaining maturities were 4.3 years and 1.6 years, respectively, at December 31, 2023. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.54 percent, and the weighted average remaining maturity was 11.7 years at December 31, 2023. The weighted average interest rate on all interest-bearing notes payable was 4.30 percent and the weighted average remaining maturity was 9.5 years at December 31, 2023. Variable rate and fixed rate notes payable represent approximately 10.95 percent and 89.05 percent, respectively, of total notes payable at December 31, 2023. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

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

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

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

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

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

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

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

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement including Capital Conservation Buffer	Capital Ratios as of December 31, 2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	15.40%	16.25%	19.53%
Tier 1 Capital	6.0%	2.5%	8.5%	15.40%	16.25%	19.53%
Total Capital	8.0%	2.5%	10.5%	15.70%	16.63%	20.70%
Permanent Capital	7.0%	0.0%	7.0%	15.44%	16.31%	19.75%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	16.61%	17.70%	20.91%
URE and UREE Leverage	1.5%	0.0%	1.5%	16.28%	17.34%	20.79%

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

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

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

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

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
C Common/Voting	No	3,957,693	$ 19,789
C Participation Certificates/Nonvoting	No	336,170	1,681
Total Capital Stock and Participation Certificates		4,293,863	$ 21,470

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

Retained Earnings

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

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

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

Allocated equities shall be retired solely at the discretion of the Board of Directors, provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained equity is considered to be permanently invested in the Association and there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2023, allocated members' equity consisted of $1,393 of nonqualified allocated surplus and $617,861 of nonqualified retained surplus.

Voting Rights

Classes A and E Common Stock and Class C Participation Certificates are nonvoting. Classes C and D Common Stock have voting rights. Each voting shareholder shall be entitled to only one vote.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed eight percent (8%) of the par value of the respective capital stock and participation certificates.

The rate of dividends paid on Classes A, C, D and E Common Stock and Class C Participation Certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards.

Patronage Distributions

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

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board of Directors. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Transfer

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

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and shall be borne ratably by each share of Class A, C, D and E Common Stock and Class C Participation Certificates outstanding.

Impaired stock and participation certificates shall be restored in the reverse of the impairment sequence until each share of stock and participation certificates has a book value equal to its par or face value, respectively.

Liquidation

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

First, to the holders of Class A 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 or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
Second, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
Third, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed; and
Fourth, insofar as is practicable, any remaining assets shall be distributed to past and present Patrons on a patronage basis in a fair and equitable manner determined by the Board or receiver.

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

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

	For the Year Ended December 31,		
	2023	**2022**	**2021**
Employee Benefit Plans:			
Balance at beginning of period	$ (98)	$ (435)	$ (495)
Equity re-characterized due to merger		(60)	–
Other comprehensive income before reclassifications	(49)	384	45
Amounts reclassified from AOCI	–	13	15
Net current period OCI	(49)	397	60
Balance at end of period	$ (147)	$ (98)	$ (435)

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

	For the Year Ended December 31,			
	2023	**2022**	**2021**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ –	$ (13)	$ (15)	See Note 9.
Amounts reclassified	$ –	$ (13)	$ (15)	

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

Note 8 — Fair Value Measurement

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

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

	December 31, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 3,220	$ –	$ –	$ 3,220
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 11,015	$ 11,015
Other property owned	$ –	$ –	$ 1,028	$ 1,028

	December 31, 2022			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 3,197	$ –	$ –	$ 3,197
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 10,051	$ 10,051
Other property owned	$ –	$ –	$ 1,217	$ 1,217

	December 31, 2021			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 2,985	$ –	$ –	$ 2,985
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 8,967	$ 8,967
Other property owned	$ –	$ –	$ 1,520	$ 1,520

Valuation Techniques

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

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

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

Note 9 — Employee Benefit Plans

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

1. Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

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

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

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were $3,435 for 2023, $5,189 for 2022, and $5,739 for 2021. At December 31, 2023, 2022, and 2021, the total liability balance for the FAP Plan was $33,660, $32,568, and $39,135, respectively. The FAP Plan was 95.43 percent, 95.81 percent, and 96.17 percent funded to the projected benefit obligation as of December 31, 2023, 2022, and 2021, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were $1,197 for 2023, $868 for 2022, and $640 for 2021. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $160,980, $167,895, and $209,599 at December 31, 2023, 2022, and 2021, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $3,385, $2,313, and $1,642 for the years ended December 31, 2023, 2022, and 2021, respectively.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2023, 2022, and 2021, $(49), $397 and $60, respectively, has been recognized as a net debit, a net credit and a net credit, respectively, to AOCI to reflect these elements.

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

In addition to the multiemployer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of $2,076 and a net under-funded status of $2,076 at December 31, 2023. Assumptions used to determine the projected benefit obligation as of December 31, 2023 included a discount rate of 5.00 percent. The expenses of these nonqualified plans included in noninterest expenses were $183, $172, and $84 for 2023, 2022, and 2021, respectively. In addition, during 2022, the Association recorded a termination settlement of $250 for the nonqualified supplemental retirement plan as a result of the merger discussed in Note 14.

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2023 amounted to $74,715. During 2023, $26,414 of new loans were made and repayments totaled $23,211. In the opinion of management, none of these loans outstanding at December 31, 2023 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2023, $1,377,147 of commitments to extend credit and $668 of commercial letters of credit were outstanding. The reserve for unfunded commitments totaled $2,245 at December 31, 2023, and was included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations and are supported by a committed loan or line of credit. At December 31, 2023, standby letters of credit outstanding totaled $17,214 with expiration dates ranging from January 1, 2024 to April 30, 2028. The maximum potential amount of future payments that may be required under these guarantees was $17,214.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows.

	Year Ended December 31,		
	2023	2022	2021
Current:			
Federal	$ 536	$ 638	$ 253
State	(3)	153	113
	533	791	366
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ 533	$ 791	$ 366

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

	December 31, 2023	December 31, 2022	December 31, 2021
Federal tax at statutory rate	$ 27,772	$ 25,465	$ 18,765
State tax, net	(3)	153	113
Patronage distributions	(16,706)	(16,800)	(17,598)
Tax-exempt FLCA earnings	(22,854)	(20,599)	(15,691)
Dividends from tax-exempt FLCA	14,821	14,417	15,410
Change in deferred tax asset valuation allowance	1,594	(48)	(841)
Impact of tax reform	–	–	–
Other	(4,091)	(1,797)	208
Provision (benefit) for income taxes	$ 533	$ 791	$ 366

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

	December 31, 2023	December 31, 2022	December 31, 2021
Deferred income tax assets:			
Allowance for loan losses	$ 2,040	$ 3,395	$ 4,577
Net operating loss – carryforward	4,857	2,221	253
Nonaccrual loan interest	104	663	563
Other	1,806	257	257
Gross deferred tax assets	8,807	6,536	5,650
Less: valuation allowance	(3,520)	(1,957)	(2,017)
Gross deferred tax assets, net of valuation allowance	5,287	4,579	3,633
Deferred income tax liabilities:			
Bank patronage allocation	(4,010)	(3,481)	(2,982)
Loan fees	(1,238)	(1,054)	(651)
Other	(39)	(44)	–
Gross deferred tax liability	(5,287)	(4,579)	(3,633)
Net deferred tax asset	$ –	$ –	$ –

At December 31, 2023, deferred income taxes have not been provided by the Association on approximately $17.8 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $3,520, $1,957 and $2,017 as of December 31, 2023, 2022 and 2021, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

At December 31, 2023 the Company has Federal loss carryforwards totaling approximately $4,857 that expire in varying amounts beginning in 2033. The valuation allowance at December 31, 2023 was primarily related to allowance for loan losses and federal loss carryforwards that, in the judgement of management, are more likely than not to expire before realized. In evaluating the Company's ability to recover its deferred income tax assets, it considers all available evidence, both positive and negative, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2023 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2018 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2023 First	Second	Third	Fourth	Total
Net interest income	$ 45,175	$ 45,344	$ 42,294	$ 42,552	$ 175,365
Provision for (reversal of) allowance for credit losses	(81)	118	1,884	(539)	1,382
Noninterest income (expense), net	(11,083)	(9,195)	(11,245)	(10,745)	(42,268)
Net income	$ 34,173	$ 36,031	$ 29,165	$ 32,346	$ 131,715

	2022				
	First	Second	Third	Fourth	Total
Net interest income	$ 19,228	$ 19,598	$ 42,796	$ 44,426	$ 126,048
Provision for (reversal of) allowance for loan losses	(5,000)	(2,000)	–	(1)	(7,001)
Noninterest income (expense), net	(7,157)	(9,651)	(8,099)	12,329	(12,578)
Net income	$ 17,071	$ 11,947	$ 34,697	$ 56,756	$ 120,471

	2021				
	First	Second	Third	Fourth	Total
Net interest income	$ 19,068	$ 18,924	$ 19,519	$ 20,213	$ 77,724
Provision for (reversal of) allowance for loan losses	–	–	–	(5,000)	(5,000)
Noninterest income (expense), net	(6,943)	(5,614)	(5,752)	24,578	6,269
Net income	$ 12,125	$ 13,310	$ 13,767	$ 49,791	$ 88,993

Note 14 — Merger Activity

Effective July 1, 2022, AgChoice merged into MidAtlantic to form Horizon Farm Credit, ACA. The effects of the merger are included in the Association's results of operations, statement of condition, average balances, and related metrics beginning July 1, 2022.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of December 31, 2023 and 2022. The Consolidated Statements of Income, Members' Equity, and Cash Flows reflect the results of MidAtlantic prior to July 1, 2022, and the merged Association after July 1, 2022. Information in the Notes to the Consolidated Financial Statements for 2022 reflects balances of the merged Association as of December 31, or in the case of transactional activity, reflects MidAtlantic prior to July 1 and the merged Association for the period July 1 to December 31.

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

Management believes that because the stock in each association is fixed in value (although subject to impairment), the Horizon stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, Horizon undertook a process to identify and estimate the acquisition date fair value of AgChoice's equity interests instead of the acquisition date fair value of Horizon's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from AgChoice, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. In addition, no material amounts of intangible assets were acquired. As a result, management recorded no goodwill. A net increase of $438.6 million was recorded in stockholders' equity related to the merger.

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

	AgChoice
Assets:	
Net loans	$ 2,624,647
Accrued interest receivable	10,958
Other assets	47,447
Total assets	$ 2,683,052
Liabilities:	
Notes payable	$ 2,212,784
Accrued interest payable	4,825
Other liabilities	26,868
Total liabilities	$ 2,244,477
Fair value of net assets acquired	$ 438,575

Fair value adjustments to AgChoice's assets and liabilities included a $111.2 million decrease to loans and a $56.2 million decrease to notes payable to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis.

Note 15 — Subsequent Events

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

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