HORIZON FARM CREDIT, ACA

2022 ANNUAL REPORT

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Tammy L. Price.... Chief Information Officer
Brian E. Rosati.... Chief Financial Officer
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Crystal A. Standish.... Chief Business Development Officer
Karen S. Swecker.... Chief Operating Officer

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Message from the President

Growing Together, Leading Together

Greetings!

This past year was exciting and transformative as two successful and respected Associations grew together. On July 1, 2022, AgChoice Farm Credit and MidAtlantic Farm Credit came together to form Horizon Farm Credit, which grew our membership and our footprint. Our Association now serves more than 22,000 member-owners across 100 counties in Delaware, Pennsylvania, Maryland, Virginia, and West Virginia.

Our growth as an Association has bolstered our commitment to—and ability to serve—agriculture and rural communities. With a focus on providing a truly exceptional experience to each member, the Horizon Farm Credit team expanded, both in size and expertise. We brought together experienced professionals with specialized knowledge and challenged each department to optimize resources, operations, and service. Our team is committed to understanding your unique needs, meeting them with efficiency, and exceeding expectations.

Our Board of Directors grew this past year, too—in order to provide effective representation for members across our expanded footprint. The Board is comprised almost exclusively of members; it is committed to ensuring that all decisions made are in the best interests of membership, are forward looking, and position both our membership and our Association as a whole, as leaders in the industry.

The growth we saw in 2022 has fueled many exciting, member-focused initiatives that we'll be delivering in 2023. In the coming months, Farm Credit will be rolling out advancements in technology and services, as well as expanded educational opportunities and increased support of young, beginning, and small farmers. We will be launching a new digital banking platform, which will enhance members' account access, control, and security. Also forthcoming is our new loan system, which will create process efficiencies, allow for quicker responses, and improve the customer experience. In addition to our established Farmers on The Rise award program, we look forward to providing other opportunities which will help our young, beginning, and small farmers build and grow their operations. Every one of these initiatives provides tremendous value, will benefit members across our footprint, and is in alignment with our mission.

You are at the center of that mission. We're committed to your success. We've grown to serve you. We're honored that you chose Farm Credit to be your financial partner and we're excited to be growing together with you.

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 2022 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.

Shawn D. Wolfinger
Chair of the Board

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian E. Rosati
Chief Financial Officer

March 9, 2023

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and 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, 2022. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2022, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2022.

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian E. Rosati
Chief Financial Officer

March 9, 2023

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2022	2021	December 31, 2020	2019	2018
Balance Sheet Data					
Cash	**$ 24**	$ 344	$ 228	$ 3,508	$ 4,376
Loans	**6,055,951**	3,040,890	2,905,638	2,844,993	2,803,479
Allowance for loan losses	**(23,306)**	(30,280)	(36,131)	(32,197)	(30,090)
Net loans	**6,032,645**	3,010,610	2,869,507	2,812,796	2,773,389
Equity investments in other Farm Credit institutions	**75,269**	27,177	30,257	32,825	32,074
Other property owned	**1,095**	1,368	1,661	1,415	622
Other assets	**99,997**	80,784	80,465	66,855	71,419
Total assets	**$ 6,209,030**	$3,120,283	$2,982,118	$2,917,399	$2,881,880
Notes payable to AgFirst Farm Credit Bank*	**$ 4,910,198**	$2,338,902	$2,229,163	$2,192,656	$2,181,496
Accrued interest payable and other liabilities with maturities of less than one year	**151,336**	110,090	87,631	63,198	65,434
Total liabilities	**5,061,534**	2,448,992	2,316,794	2,255,854	2,246,930
Capital stock and participation certificates	**21,883**	11,814	11,400	10,974	10,744
Additional paid-in-capital	**267,216**	—	—	—	—
Retained earnings					
Allocated	**586,676**	407,650	405,105	409,174	388,255
Unallocated	**271,819**	252,262	249,314	241,769	236,149
Accumulated other comprehensive income (loss)	**(98)**	(435)	(495)	(372)	(198)
Total members' equity	**1,147,496**	671,291	665,324	661,545	634,950
Total liabilities and members' equity	**$ 6,209,030**	$3,120,283	$2,982,118	$2,917,399	$2,881,880
Statement of Income Data					
Net interest income	**$ 126,048**	$ 77,724	$ 76,069	$ 73,577	$ 71,266
Provision for (reversal of) allowance for loan losses	**(7,001)**	(5,000)	5,000	4,000	4,000
Noninterest income (expense), net	**(12,578)**	6,269	7,663	(5,805)	624
Net income	**$ 120,471**	$ 88,993	$ 78,732	$ 63,772	$ 67,890
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.64%**	2.99%	2.70%	2.22%	2.43%
Total members' equity	**13.14%**	13.15%	11.67%	9.74%	10.84%
Net interest income as a percentage of average earning assets	**2.81%**	2.64%	2.64%	2.61%	2.59%
Net (chargeoffs) recoveries to average loans	**0.00%**	(0.03)%	(0.04)%	(0.07)%	0.01%
Total members' equity to total assets	**18.48%**	21.51%	22.31%	22.68%	22.03%
Debt to members' equity (:1)	**4.41**	3.65	3.48	3.41	3.54
Allowance for loan losses to loans	**0.38%**	1.00%	1.24%	1.13%	1.07%
Permanent capital ratio	**16.31%**	19.75%	20.69%	20.91%	20.26%
Common equity tier 1 capital ratio	**16.25%**	19.53%	20.31%	19.69%	18.84%
Tier 1 capital ratio	**16.25%**	19.53%	20.31%	19.69%	18.84%
Total regulatory capital ratio	**16.63%**	20.70%	21.66%	21.81%	21.09%
Tier 1 leverage ratio**	**17.70%**	20.91%	21.68%	20.78%	19.88%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**17.34%**	20.79%	21.67%	20.75%	19.39%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 80,000**	$ 80,500	$ 51,500	$ 17,000	$ 20,000
Nonqualified retained earnings	**18,159**	622	17,695	41,251	43,589

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2023.*
*** Tier 1 leverage ratio must include a minimum of 1.50% of URE and URE equivalents.*

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Horizon Farm Credit, ACA, (Association) for the year ended December 31, 2022, with comparisons to the years ended December 31, 2021, and December 31, 2020. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" 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 E. 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 2023 forecast estimates net farm income (income after expenses from production in the current year; a broader measure of profits) for 2022 at $162.7 billion, a $21.8 billion increase from 2021 and $70.0 billion above the 10-year average. The forecasted increase in net farm income for 2022, compared with 2021, is primarily due to increases in cash receipts for animals and animal products of $61.9 billion to $257.7 billion and crop receipts of $44.7 billion to $285.7 billion, partially offset by a decrease of $10.3 billion to $15.6 billion in direct government payments and an increase in cash expenses of $65.7 billion to $411.1 billion. If realized, 2022 net farm income (in real dollars of $167.3 billion) would be the highest level since 1973 when net farm income was $172.9 billion adjusted for real dollars.

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

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

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

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

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

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

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

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

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

Geographic and commodity diversification across the District coupled with existing government safety net programs, ad hoc support programs and additional government disaster aid payment for many borrowers help to mitigate the impact of challenging agricultural conditions. The District's financial performance and credit quality are expected to remain sound overall due to strong capital levels and favorable credit quality position at the end of 2022. Additionally, while the District benefits overall from diversification, individual District entities may have higher geographic, commodity, and borrower concentrations which may accentuate the negative impact on those entities' financial performance and credit quality. Non-farm income support for many borrowers also helps to mitigate the impact of periods of less favorable agricultural conditions. However, agricultural borrowers who are more reliant on non-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

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

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

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

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

ECONOMIC CONDITIONS

The Association's loan portfolio ended 2022 in a very strong condition. As of December 31, 2022, the percentage of fully acceptable loans and other assets especially mentioned increased slightly to 98.5 percent, compared to 97.3 percent for the prior year-end. The continued strong credit quality resulted from generally benign conditions for our major portfolio segments, prudent underwriting and servicing of new and existing loans and a portfolio with diverse commodities and repayment sources. Some deterioration in overall economic conditions has been noted over the course of 2022, as further discussed below.

The Federal Funds Rate increased sharply throughout 2022, with some further increases expected in 2023. The extent and pace of this recent round of rate increases was historic, with six consecutive increases totaling 425 basis points over ten months. This was in reaction to inflation running well over the levels targeted by the Federal Reserve and much of the commentary from Fed officials has stressed a “whatever it takes” posture towards combating inflation. The 2/10 year spread for US Treasuries ended 2022 sharply inverted at negative 53 basis points, with significant inversions sometimes serving as a harbinger of a recession in coming months. The higher rate environment appears to have put some downward pressure on inflation and economic activity, as housing markets have started to show signs of weakening and refinance activity has all but vanished. A bright spot on the economic front in the U.S. was the national average unemployment rate, which for 2022 fell to 3.6 percent compared to 5.3 percent for 2021. Unemployment rates also dropped in varying degrees for each of the five states in which the Association is chartered, although several states did have readings slightly higher than the national average.

The poultry industry, specifically the ‘contract broiler’ segment, represents the largest agricultural commodity in the loan portfolio at 12.0 percent and is geographically concentrated in the tri-state region locally known as the Delmarva Peninsula. Credit quality in this segment is 94.0 percent acceptable, up from 90.2 percent in 2021. 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 were slightly down in 2022, due in part to sharp decreases in China. Domestic production is expected to be strong in 2023, but with potentially weaker pricing due to continued softer exports. Poultry prices, as measured nationally by the composite whole broiler price, are forecast to average 12.0 cents lower in 2023 than in 2022, at 128.5 cents per pound. Locally, turn times with integrators are following typical seasonal patterns.

The dairy industry is the second largest concentration in the loan portfolio, at 11.2 percent of the total portfolio. Credit quality in the dairy segment increased in 2022 to 94.4 percent acceptable, as compared to 93.2 percent at the end of 2021. Dairy markets saw great improvement in 2022, consistently achieving levels $7/cwt above the 10-year average milk price and resulting in a highly profitable year for most operations. Dairy cow herd numbers grew to a record high before dropping in Q4 2022. Nationally, high grain and crop input prices tightened income over feed costs, which kept 2022 from being one of the most profitable years on record. Input costs in 2023 have started to stabilize but are still projected to be higher than the past several years, resulting profitability will reduce in 2023 and be more similar to the prior 3-5 year average. Farms that utilized the Dairy Margin Coverage program could potentially receive indemnity payments at the $9.50 coverage level in the first three quarters of 2023. 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. In 2023, we expect that dairy will have a profitable year, despite higher costs.

The third largest portfolio segment is Grains at 10.3 percent. Credit quality in the grains segment is 97.1 percent acceptable, up from 95.1 percent acceptable in 2021. 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. Total US crop production was somewhat weaker than average in 2022, and world production was not an adequate offset. As a result, world carryover inventories were relatively tight, which in turn kept prices strong. Production in 2022 for our territory was generally average although pockets of drought conditions manifested, especially late in the growing season. High input costs were a significant concern going into the crop year but have moderated to some extent -- although labor in particular remains tight. Due to the softening of prices, margins are likely to tighten in 2023 from increased production, while cost structures will likely be slower to fall.

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 34.0 percent of total loans. However, there is significant diversity in repayment sources within that segment, further supported by having several metropolitan areas located in and near our territory. Credit quality in this segment improved slightly in 2022 to 97.6 percent acceptable, compared to 97.1 percent acceptable on December 31, 2021. Unemployment trends are a key factor for this portfolio segment, and as noted above, were supportive of credit quality in 2022.

According to the USDA, Land Values 2022 Summary (August 2022), the United States farm real estate value, a measurement of the value of all land and buildings on farms, averaged $3,800 per acre for 2022, up $420 per acre (12.4 percent) from 2021. The United States cropland value averaged $5,050 per acre, an increase of $630 per acre (14.3 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.

Farm real estate values are generally expected to remain strong due to sound crop prices, 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 rural settings.

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, 2022, the Association held $1.186 billion of principal balance and $596.8 million in unused commitments in purchased/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 99.0 percent acceptable compared to 98.1 percent one year ago.

During 2022, the Association continued to target certain areas of our business with the goal of increasing market share. As in prior years, in 2022 the Association continued expansion of its farm equipment financing program, Farm Credit ***EXPRESS*** (FCE), which provides an efficient electronic 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 2022, the Association was providing this service on a per transaction fee basis for 18 associations, both within and outside of the AgFirst District. During 2022, over four thousand notes were closed by our FCE team for approximately $179 million, including over $67 million of loans booked to the Association. During 2022, there were over two thousand new members to the Farm Credit System as a result of the FCE program. Continued efforts are being made to expand 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 $1.8 million of additional volume booked to the Association in 2022.

LOAN PORTFOLIO

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

	December 31,					
Loan Types	**2022**		**2021**		**2020**	
	(dollars in thousands)					
Real estate mortgage	$ 3,529,846	58.28%	$ 2,000,305	65.79%	$ 1,866,567	64.24%
Production and intermediate term	1,454,345	24.01	758,322	24.94	737,853	25.39
Processing and marketing	425,531	7.03	81,753	2.69	88,494	3.05
Communication	188,658	3.12	42,407	1.39	58,449	2.01
Farm-related business	132,515	2.19	53,564	1.76	48,852	1.68
Loans to cooperatives	106,603	1.76	20,923	0.69	27,209	0.94
Rural residential real estate	91,131	1.50	57,922	1.90	50,612	1.74
Power and water/waste disposal	66,369	1.10	725	0.02	2,646	0.09
International	55,563	0.92	24,969	0.82	24,956	0.86
Lease receivables	5,390	0.09	–	–	–	–
Total	$ 6,055,951	100.00%	$ 3,040,890	100.00%	$ 2,905,638	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.

The geographic distribution of the loans including accrued interest by region for the past three years is as follows:

	December 31,		
Region	**2022**	**2021**	**2020**
Susquehanna	20%	25%	23%
Delmarva	19	36	36
Appalachian	15	–	–
Potomac	13	28	29
Allegheny	13	–	–
Capital Markets/Other	20	11	12
Total	100%	100%	100%

Capital Markets/Other includes the Association's participation loans purchased, Farm Credit Leasing loans, and nonaccruing loans.

The geographic distribution of loans reflects the merged Association regions, including employee loans. The Merger is the primary reason for the year-over-year changes in the geographic distribution of loans by region, as well as additional growth in our participations portfolio.

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 below. For 2022, the predominant commodities are poultry, dairy, grains, field crops, and forestry, which together constitute 51 percent of the entire portfolio.

Commodity Group	December 31, 2022		2021		2020	
	(dollars in thousands)					
Poultry	$ 726,711	12.0%	$ 551,374	18.1%	$ 567,982	19.5%
Dairy	678,684	11.2	255,684	8.4	237,099	8.2
Grains	625,469	10.3	331,646	10.9	338,661	11.7
Field Crops	586,674	9.7	288,276	9.5	260,983	9.0
Forestry	486,395	8.0	129,900	4.3	133,206	4.6
Other Real Estate	457,600	7.6	276,486	9.1	249,870	8.6
Cattle	348,896	5.8	141,357	4.6	116,831	4.0
Processing	343,777	5.7	132,070	4.3	91,331	3.1
Horses	266,900	4.4	194,236	6.4	194,345	6.7
Corn	248,309	4.1	223,437	7.3	210,799	7.3
Utilities	223,965	3.7	43,132	1.4	61,095	2.1
Nursery/Greenhouse	187,899	3.1	134,193	4.4	117,956	4.1
Tree Fruits & Nuts	149,185	2.5	56,793	1.9	56,488	1.9
Swine	116,751	1.9	55,880	1.8	54,126	1.9
Other	608,736	10.0	226,426	7.6	214,866	7.3
Total	$ 6,055,951	100.0%	$ 3,040,890	100.0%	$ 2,905,638	100.0%

The commodity segments for the merged Association reflect industry categories used by the Bank for District reporting, except for the "Other" category. Other also includes cotton, rural home loans and tobacco. The Merger was the primary reason for the shift in commodity concentration and further increased diversification within our portfolio. Information for 2021 and 2020 were restated from the previous annual report to reflect industry categories used by the Bank for District reporting.

Repayment ability is closely related to the 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, 2022, continues to be well diversified with no significant industry or producer concentration.

During 2022, 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, 2022	2021	2020
	(dollars in thousands)		
Participations Purchased	$1,046,872	$ 241,338	$ 276,342
Participations Sold	(186,593)	(109,106)	(93,543)
Total	$ 860,279	$ 132,232	$ 182,799

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, 2022.

The Association sells qualified long-term mortgage loans into the secondary market. For the periods ended December 31, 2022, 2021, and 2020, the Association originated loans for resale totaling $39,309, $66,268, and $67,913, respectively, which were sold into the secondary market. The decline in activity in 2022 is primarily the result of 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, 2022, 2021, and 2020, the Association had loans amounting to $134, $200, and $357, 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, 2022, 2021, and 2020, the balance of these loans was $119,781, $76,460, and $82,366, respectively.

MISSION RELATED INVESTMENTS

In partnership with other System entities and community banks, we provide funding to rural community facilities. We also make 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 four commitments for total investments up to $1 million, and as of December 31, 2022, has funded $452 thousand 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
- 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. 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 including accrued interest at December 31.

Credit Quality	2022	2021	2020
Acceptable & OAEM	98.45%	97.32%	95.62%
Substandard/doubtful/loss	1.55	2.68	4.38
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing the majority of loans classified as high-risk. The High-risk Assets, including accrued interest, are detailed below:

	December 31,		
High-risk Assets	**2022**	**2021**	**2020**
	(dollars in thousands)		
Nonaccrual loans	$ 32,490	$ 37,648	$ 43,524
Restructured loans	22,390	27,307	36,812
Accruing loans 90 days past due	10,314	220	–
Total high-risk loans	65,194	65,175	80,336
Other property owned	1,095	1,368	1,661
Total high-risk assets	$ 66,289	$ 66,543	$ 81,997
Ratios			
Nonaccrual loans to total loans	0.54%	1.24%	1.50%
High-risk assets to total assets	1.07%	2.13%	2.75%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $5,158 or 13.70 percent, after having decreased $5,876 or 13.50 percent in the previous year. These decreases are mainly due to some large accounts that paid off or became current. Of the $32,490 in nonaccrual volume at December 31, 2022, $15,385 or 47.35 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 39.72 percent and 41.54 percent at December 31, 2021 and 2020, respectively.

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

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio for any of the three years reported. In calculating the allowance for loan losses, acquired loans as part of the Merger, were excluded in accordance with Generally Accepted Accounting Principles but accounted for in the fair value adjustments due to the Merger.

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

Allowance for Loan Losses by Type	December 31, 2022	2021	2020
	(dollars in thousands)		
Production and intermediate term	$ 11,429	$ 15,941	$ 18,333
Real estate mortgage	9,679	12,282	15,617
Agribusiness	1,722	1,691	1,719
Rural residential real estate	264	278	323
Communication	107	66	115
International	36	22	22
Power and water/waste disposal	41	–	2
Lease receivables	28	–	–
Total allowance	$ 23,306	$ 30,280	$ 36,131

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, 2022	2021	2020
	(dollars in thousands)		
Balance at beginning of year	$ 30,280	$ 36,131	$ 32,197
Charge-offs:			
Real estate mortgage	–	(1,039)	(355)
Production and intermediate term	–	(21)	(682)
Agribusiness	(4)	–	(94)
Rural residential real estate	(4)	(57)	–
Total charge-offs	(8)	(1,117)	(1,131)
Recoveries:			
Real estate mortgage	14	155	39
Production and intermediate term	20	111	26
Agribusiness	1	–	–
Rural residential real estate	–	–	–
Total recoveries	35	266	65
Net (charge-offs) recoveries	27	(851)	(1,066)
Provision for (reversal of allowance for) loan losses	(7,001)	(5,000)	5,000
Balance at end of year	$ 23,306	$ 30,280	$ 36,131
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.00%	(0.03)%	(0.04)%

The 2022 reversal in allowance for loan losses was recorded to better align the allowance with the reduced risk of the portfolio, as nonaccrual volume and charge-offs have been declining over recent years.

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, 2022	2021	2020
Total loans	0.38%	1.00%	1.24%
Nonaccrual loans	71.73%	80.43%	83.01%

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $126,048, $77,724, and $76,069 in 2022, 2021, and 2020, 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 a result of 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)			
12/31/22 - 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
12/31/21 - 12/31/20				
Interest income	$ 3,461	$ (10,887)	$ 822	$ (6,604)
Interest expense	1,602	(9,380)	(481)	(8,259)
Change in net interest income	$ 1,859	$ (1,507)	$ 1,303	$ 1,655

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

Noninterest Income

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2022**	**2021**	**2020**	**2022/ 2021**	**2021/ 2020**
	(dollars in thousands)				
Loan fees	$ 1,749	$ 1,805	$ 1,915	(3.10) %	(5.74) %
Fees for financially related services	4,355	3,834	3,817	13.59	0.45
Patronage refunds from other Farm Credit Institutions	54,221	48,213	42,934	12.46	12.30
Gains (losses) on sales of rural home loans, net	806	1,414	1,393	(43.00)	1.51
Gains (losses) on sales of premises and equipment, net	323	320	219	0.94	46.12
Gains (losses) on other transactions	272	259	222	5.02	16.67
Insurance fund refunds	–	–	553	0.00	(100.00)
Other noninterest income (expense)	152	194	203	(21.65)	(4.43)
Total noninterest income	$ 61,878	$ 56,039	$ 51,256	10.42 %	9.33 %

Loan fees decreased by $56 or 3.10 percent due to the Paycheck Protection Program (PPP) that ended in 2021, slightly offset by higher participation fees, origination fees and various other fees. The Association participated in the Paycheck Protection Program (PPP), which supported approximately $8,329 and $17,221 in members' loan volume for the years ended December 31, 2021 and 2020. The program generated approximately $750 and $730 of related loan fees in 2021 and 2020, which are included in the loan fees above.

Fees for financially related services increased $521 or 13.59 percent, principally due to expanding our member offerings to include payroll, tax, and consulting services in conjunction with the Merger, 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 $26,429, $30,929, and $25,898 for the years ended December 31, 2022, 2021, and 2020, respectively.

The Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligation, had assets exceeding the secure base amount as defined by the Farm Credit Act. As a result of the excess, FCSIC made distributions to the Farm Credit System Banks and certain associations and retired the remaining related Financial Assistance Corporation outstanding shares. The Association's share of this distribution was $553 for the year ended December 31, 2020. FCSIC had no such excess in 2022 or 2021.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2022	2021	2020	Percentage Increase/(Decrease) 2022/2021	2021/2020
	(dollars in thousands)				
Salaries and employee benefits	$ 46,457	$ 34,524	$ 30,313	34.56%	13.89%
Occupancy and equipment	2,973	2,027	1,994	46.67	1.65
Insurance Fund premiums	7,056	3,543	2,089	99.15	69.60
Purchased services	3,570	1,821	1,715	96.05	6.18
Data processing	1,340	730	477	83.56	53.04
(Gains) losses on other property owned, net	(176)	(17)	404	935.29	(104.21)
Other operating expenses	12,445	6,776	6,070	83.66	11.63
Total noninterest expense	$ 73,665	$ 49,404	$ 43,062	49.11%	14.73%

Noninterest expense increased $24,261 or 49.11 percent for the year ended December 31, 2022, as compared to the same period in 2021, and increased $6,342 or 14.73 percent in 2021 compared to 2020. The increase is primarily due to the Merger.

Salaries and employee benefits increased $11,933 or 34.56 percent in 2022 as compared to 2021. This increase is primarily attributable to (a) annual compensation increases, hiring new staff, and the increase in headcount as a result of the Merger, and (b) higher benefit expenses which were offset by lower retirement plan expenses. Post retirement benefits increased $422 or 5.25 percent for the year ended December 31, 2022, as compared to the same period in 2021, and increased $1,444 or 21.89 percent in 2021 compared to 2020. 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 $13,919 or 36.68 percent.

FCSIC premiums increased $3,513 or 99.15 percent in 2022 as compared to 2021. The unfavorable change resulted from increased adjusted insured debt outstanding and an increased insurance premium of 20 basis points in 2022 compared to 16 basis points in 2021.

Purchased services and Data processing expenses increased $2,359 or 92.47 percent due to additional purchased services, hardware and software upgrades, and merger related expenses.

Occupancy and equipment and Other operating expenses increased a total of $6,615 or 75.14 percent from 2021 to 2022, which is primarily related to additional operating costs, business travel and training, building improvements, and merger related expenses.

Income Taxes

The Association recorded a provision for income taxes of $791 for the year ended December 31, 2022, as compared to a provision of $366 for 2021 and a provision of $531 for 2020. 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:

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/22	12/31/21	12/31/20
Return on average assets	2.64%	2.99 %	2.70 %
Return on average members' equity	13.14%	13.15 %	11.67 %
Net interest income as a percentage of average earning assets	2.81%	2.64 %	2.64 %
Net (charge-offs) recoveries to average loans	0.00%	(0.03)%	(0.04)%

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 and return on average members' equity for 2022 compared to 2021 is due to merger fair value adjustments, offset by an increase in net income. Higher net interest income resulted in a higher return on average earnings assets in 2022, as compared to 2021 and 2020. See *Allowance for Loan Losses, Net Interest Income, Noninterest Income*, and *Noninterest Expense* sections for further discussion.

In 2022 and 2021, the Association recorded a reversal of allowance for loan losses of $7,001 and $5,000, and net (charge-offs) recoveries of $27 and ($851). This was a decrease compared to 2020 when the provision for loan losses totaled $5,000, and net (charge-offs) recoveries aggregated ($1,066), respectively.

The past three years have been favorably impacted by the receipt of Special Patronage distributions from AgFirst Farm Credit Bank which totaled $26,429, $30,929, and $25,898 in 2022, 2021, and 2020, respectively. The $26,429 was the Association's share of a $123 million Special Patronage distribution from the Bank. 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, 2022, was $4,910,198 as compared to $2,338,902 at December 31, 2021, and $2,229,163 at December 31, 2020. The increase of 109.94 percent compared to December 31, 2021, was attributable to the Merger, as well as an increase in loan volume, net of the Association's increase in members' equity attributable to retained net income. Since the end of 2018, loans have increased $3,252,472 or 116.02 percent while Members' Equity has increased $512,546 or 80.72 percent. The average volume of outstanding notes payable to the Bank was $3,566,385 and $2,249,026 for the years ended December 31, 2022 and 2021, respectively. The increase was primarily attributable to the Merger. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's notes payable to the Bank. 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, 2022.

Funds Management

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

Demand for loan types is a 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, the London Interbank Offered Rate (LIBOR), and the Secured Overnight Finance Rate (SOFR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance 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.

LIBOR TRANSITION

In 2017, the United Kingdom's Financial Conduct Authority (UK FCA), which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it was uncertain whether LIBOR would continue to be quoted after 2021.

On March 5, 2021, ICE Benchmark Administration (IBA) (the entity that is responsible for calculating LIBOR) announced its intention to cease the publication of the one-week and two-month US dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining US dollar LIBOR settings immediately following the LIBOR publication on June 30, 2023. On the same day, the UK FCA announced that the IBA had notified the UK FCA of its intent, among other things, to cease providing certain US dollar LIBOR settings as of June 30, 2023. In its announcement, the UK FCA confirmed that all 35 LIBOR tenors (including with respect to US dollar LIBOR) will be discontinued or declared nonrepresentative as of either: (a) immediately after December 31, 2021 or (b) immediately after June 30, 2023.

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

The Association has exposure to LIBOR arising from loans made to customers, and Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf. The Association has implemented LIBOR transition plans and continues to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

On December 16, 2022, the Federal Reserve Board adopted a final rule implementing certain provisions of the LIBOR Act ("Regulation ZZ"). Regulation ZZ specifies that on the LIBOR replacement date, which is the first London banking day after June 30, 2023, the Federal Reserve Board-selected benchmark replacement, based on SOFR and including any tenor spread adjustment as provided by Regulation ZZ, will replace references to overnight, one-month, three-month, six-month, and 12-month LIBOR in certain contracts that do not mature before the LIBOR replacement date and that do not contain adequate fallback language. While substantially all contracts, including Systemwide Debt Securities and loans made by District institutions, have adequate fallbacks to replace LIBOR, the LIBOR Act and Regulation ZZ could apply to certain Systemwide Debt Securities and investments, and loans that reference LIBOR and have no or inadequate fallback provisions.

The following is a summary of outstanding variable-rate financial instruments tied to LIBOR at December 31, 2022:

(dollars in millions)	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 30, 2023	Total
Investments	$ –	$ –	$ –	$ –
Loans	47	8,110	385,803	393,960
Total Assets	$ 47	$ 8,110	$ 385,803	$ 393,960
Note Payable to AgFirst Farm Credit Bank	$ 37	$ 6,420	$ 305,398	$ 311,855
Total Liabilities	$ 37	$ 6,420	$ 305,398	$ 311,855

The Plan includes implementing fallback language into variable-rate financial instruments which provides the ability to move these instruments to another index. A large portion of the Bank's loans that have exposure to LIBOR are purchased from other financial institutions and the Bank is dependent on the other financial institutions to perform the borrower negotiations. To the extent that any loan has not been prepaid, redeemed or amended prior to June 30, 2023 to include a non-LIBOR fallback rate, pursuant to the LIBOR Act and Regulation ZZ, the LIBOR-based rate that would have been paid under such loan will be replaced by operation of law.

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 2022, nor are any planned for 2023, that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2022, increased 70.94 percent to $1,147,496 from the December 31, 2021, total of $671,291. At December 31, 2021, total members' equity increased 0.90 percent from the December 31, 2020, total of $665,324. The 2022 increase was primarily related to the Merger, as well as attributed to net income, 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 and an unallocated retained earnings equivalents (UREE) leverage ratio. 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. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

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, 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 assets less regulatory deductions to Tier 1 capital.
- The UREE 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 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, 2022	2021	2020
Risk-adjusted ratios:				
CET1 Capital Ratio	7.00%	16.25%	19.53%	20.31%
Tier 1 Capital Ratio	8.50%	16.25%	19.53%	20.31%
Total Capital Ratio	10.50%	16.63%	20.70%	21.66%
Permanent Capital Ratio	7.00%	16.31%	19.75%	20.69%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	5.00%	17.70%	20.91%	21.68%
UREE Leverage Ratio	1.50%	17.34%	20.79%	21.67%

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.

The changes in the Association's Total Capital Ratio at December 31, 2022, was attributed to the Merger as well as attributed to net income, net of patronage distribution, an increase in the Association's capital stock and participation certificates outstanding, and an increase in loan volume outstanding.

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

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

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. 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 $80,000 in 2022, $80,500 in 2021, and $51,500 in 2020.

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.

- 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.

As of December 31, 2022
(dollars in thousands)

	Number of Borrowers	Number of Loans	Amount of Loans
Young	5,277	8,055	$1,137,861
Beginning	7,713	10,767	1,786,543
Small	12,980	18,036	2,064,762

As of December 31, 2021
(dollars in thousands)

	Number of Borrowers	Number of Loans	Amount of Loans
Young	2,670	4,066	$ 542,081
Beginning	4,078	5,692	972,088
Small	7,046	9,808	1,098,714

For 2022, the Association's quantitative goals were to book 500 new business relationships, which meet one or more of the established criteria for designation as Young, Beginning, or Small. The goal for booking new business relationships (BEs) was achieved as evidenced by the following table:

New BEs	2,255
Young BEs	724 or 32.1% of the total
Beginning BEs	1,161 or 51.5% of the total
Small BEs	1,373 or 60.9% of the total

The overall goal of 500 new business relationships or greater being designated either Young, Beginning or Small was achieved as 1,577 or 69.9 percent qualified as Young, Beginning or Small.

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, 2022, the demographics of the Association's agricultural portfolio contained 19,842 borrowers, of which by definition 5,043 or 25.4 percent were Young, 7,292 or 36.8 percent were Beginning and 12,208 or 61.5 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.
- 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 2022, the Association successfully approved a new program for implementation in 2023, **GrowAhead** that focuses on the needs of Young, Beginning, and Small farmers.

The **GrowAhead** program includes several outreach and educational efforts targeted to Young, Beginning, and Small (YBS) farmers. One part of this program is AgBiz Masters, an interactive learning series designed specifically for young and beginning farmers that has been in place since 2010. AgBiz 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 **AgBiz Masters at** ***www.agbizmasters.com*.**

Another part of the program is the **Farmer on the Rise** award competition for Young, Beginning, Small, Minority, and Veteran (YBSMV) farmers. 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, ***www.horizonfc.com.***

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

On August 26, 2021, the FCA issued a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the increased risk posed by HVCRE exposures. The public comment period ended on January 24, 2022.

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

NOTICE OF SIGNIFICANT EVENTS

The Association evaluated subsequent events and determined that, other than disclosed in Note 15, there were no other events requiring disclosure through March 9, 2023, 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.

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) but have not yet been adopted:

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity as of December 31, 2022:

Location	Description	Form of Ownership
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
300 Winding Creek Boulevard Mechanicsburg, PA 17050	Headquarters	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 November 30, 2023.

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report 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 of Senior	Position and Prior Experience
Thomas H. Truitt, Jr.	*President & Chief Executive Officer* since July 1, 2022. Thomas previously served as the Chief Executive Officer of predecessor association MidAtlantic Farm Credit since January 2016. He previously served as MidAtlantic's Sr. Vice President and Chief Operating Officer from July 2013 through December 2015.
Cathy L. Blair	*Chief Administrative Officer* since July 1, 2022. Cathy previously served as the Senior Vice President, Corporate Services of predecessor association MidAtlantic Farm Credit beginning September 2017. She previously served as Vice President for Administrative Services and Corporate Secretary since February 2016. Cathy has served in various other roles within MidAtlantic since May 2007.
Stuart D. Cooper	*Immediate past Sr. Vice President & Chief Lending Officer* of predecessor association MidAtlantic Farm Credit from January 2019, until his retirement June 30, 2022. From September 2015 until December 31, 2018, was *Sr. Vice President & Division Manager*, and previously served the Association in various operations positions since October 1995.
Mark F. Kerstetter	*Chief Strategy Officer* beginning July 1, 2022. Mark previously served as the Executive Vice President and Chief Operating Officer of predecessor association AgChoice Farm Credit beginning July 2018. Mark previously served as the Chief Financial Officer since August 2014, Director of Capital Markets Lending since August 2014, and Capital Markets Manager since 2011.
Gina M. Moshier	*Chief Strategic Initiatives Officer* beginning July 1, 2022. Gina previously served as the Senior Vice President and Chief Administrative Officer of predecessor association AgChoice Farm Credit beginning July 2018. Gina worked as the Director of Organizational Effectiveness since August 2014 and Operations/Project Manager since 2008.
Bessie H. Moy	*Chief Audit Executive* since July 1, 2022. Bessie previously served as the Chief Audit Executive of predecessor association MidAtlantic Farm Credit beginning July 2019. Her 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 as Senior Manager in major international accounting firms.
Tammy L. Price	*Chief Information Officer* since July 1, 2022. Tammy previously served as the Senior Vice President of Technology and Strategic Partnerships of predecessor association MidAtlantic Farm Credit beginning July 2019. Previously served Association in various positions in the Information Technology Department since July 2000.
Brian E. Rosati	*Chief Financial Officer* since July 1, 2022. Brian previously served as the Chief Financial Officer of predecessor association MidAtlantic Farm Credit beginning December 2018. He previously served as Sr. Vice President, Finance upon hire with the Association in October 2018. Brian was employed from 2014 until October 2018 as Vice President of Finance with a privately owned international advertising technology company. From 2010 until 2014, he was the Director of Corporate Finance for a publicly traded software company. His prior twelve years of experience are with major international accounting firms in audit and tax services.
William J. Rutter	*Chief Risk Officer* since July 2022. Bill previously served as Chief Credit Officer of predecessor association MidAtlantic Farm Credit beginning April 2017 through June 2022 and Interim Chief Credit Officer from October 2016 through March 2017. Previously served the Association in various credit and operations positions since January 1998.
Crystal A. Standish	*Chief Business Development Officer* beginning July 1, 2022. Crystal previously served as the Senior Vice President and Chief Sales and Marketing Officer of predecessor association AgChoice Farm Credit beginning January 2014 and Regional Sales Manager since 2012.
Cheryl L. Steinbacher	*Immediate past Sr. Vice President & Director of Human Resources and Training* of predecessor association MidAtlantic Farm Credit from March 2015, until her retirement June 30, 2022. Previous five years was Senior Vice President of Human Resources & Organizational Development for Cardinal Bank in McLean, Virginia.
Karen S. Swecker	*Chief Operating Officer* since July 1, 2022. Karen previously served as Senior Vice President of Loan Operations of predecessor association MidAtlantic Farm Credit beginning in May 2020. From 2017 to 2020, was the Vice President and Relationship Manager with AgFirst Farm Credit Bank. Prior to that, served 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, 2022, 2021 and 2020, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Change in Pension Value	Deferred/ Perquisites*(d)*	Total
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
Thomas H. Truitt, Jr.	2020	530,020	318,705	318,086	242,488	1,409,299
11 Officers*(a)*	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
11 Officers	2020*(c)*	1,750,265	467,553	1,250,984	600,907	4,069,709

(a) Disclosure of information on the total compensation paid during 2022 to any senior officers is available to shareholders upon request.
(b) For 2022, the table includes annual compensation for 2 senior officers who retired in June 2022.
(c) For 2020, the table includes annual compensation for 1 individual who was a senior officer until May 2020 and 1 senior officer who began employment in May 2020.
(d) 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 officers. For the Chief Audit Executive, 20% of the incentive award is based on Association Performance and the remaining 80% is based on Personal Performance.

Thirty 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 12.5% for Association Performance and up to an additional 12.5% for individual performance for a maximum total of 25% of base salary.

Established targets for both plans are measured at December 31, 2022, 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 Table - 2022	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	30	$ 2,205,014	$ –
Total		$ 2,205,014	$ –
Senior Officers			
(excluding CEO)[(1)]	–	$ –	$ –
Supplemental Executive			
Retirement Plan	–	$ –	$ –
AgFirst Defined Benefit			
Retirement Plan	24	$ 2,155,749	$ 2,503,048
-Total		$ 2,155,749	$ 2,503,048

(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 2022 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 stockholders 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 cars, 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 $547,598 for 2022, $342,314 for 2021 and $198,032 for 2020. 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, 2022, 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 association hosted events, an honorarium of $300 and $400, respectively, is paid.

In addition to the honoraria, as of December 31, 2022, directors are paid a quarterly retainer fee of $7,500, the Chair and Vice Chair are paid an additional $2,500 and $1,750, respectively, and committee Chairs receive an additional $1,250. 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 for each director serving on the Board, the current term of expiration, and total cash compensation paid during 2022.

Name of Director	Current Term Expiration	Total Compensation
Shawn D. Wolfinger *2022 Chair*	2023	$ 45,080
David R. Smith *2022 Vice Chair*	2023	69,300
Richard A. Allen	2022	31,340
Paul D. Baumgardner	2024	50,125
Julie A. Bolyard	2025	51,420
Samuel BowerCraft *Appointed and Outside*	2024	30,200
Brian L. Boyd	2026	67,275
Kevin D. Grim	2023	26,500
Steven H. Gross, Jr.	2026	29,700
John Travis Hastings	2023	52,125
Laura M. Heilinger	2024	53,750
Anthony M. Ill *Appointed and Outside*	2025	56,000
William K. Jackson	2024	29,860
T. Jeffrey Jennings	2023	56,750
Fred R. Moore, Jr.	2025	46,300
Michael S. Nelson	2026	52,985
Jennifer L. Rhodes	2024	59,680
Paul H. Schmidt	2024	31,800
Douglas D. Scott	2022	45,725
Larry A. Seibert *Appointed and Outside*	2023	23,000
Richard D. Shuman	2025	33,450
Alan N. Siegfried *Appointed and Outside*	2022	51,425
Dennis D. Spangler	2022	27,800
Charles F. Ulmer	2024	25,520
Christine Waddell	2024	28,170
Fred N. West	2022	40,525
Charles M. Wright IV	2023	57,935
Total		$ 1,173,740

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

Shawn D. Wolfinger, Board Chair, 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. 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, Northcentral Pennsylvania Forest Land Owners Association, Potato Creek Trail Association, Coudersport Golf Club, and volunteers as a member of the Big 30 Football All Star Selection Committee.

David R. Smith, Board Vice 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.

Richard A. Allen, owns and operates Crabapple Valley Farms, a 100-acre registered Black Angus cow/calf operation. He is also employed by Allen-Hill Dairy, LLC. He is a member of the Pennsylvania Angus Association and the Pennsylvania Holstein Association.

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.

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., owns and operates D&S Gross Cold Springs Farms, LLC, a dairy-beef and crop operation, in partnership with his brother, Dan. They feed 1,500 head of cattle and farm 2,200 acres of corn, soybeans, wheat, sunflowers and cover crop turnips. Mr. Gross also has a feed store with a Purina dealership for direct customer sales. Mr. Gross has served on many local, county, state and national agricultural committees over the last 25 years, including serving his community as an East Manchester Township supervisor for the past 24 years and Chair for the last 14 years. His past service includes the PA Farm Bureau York County Board, PA Farm Bureau Young Farmer and Rancher State Committee, AFBF National Young Farmer and Rancher Committee, the AgChoice Nominating Committee, York County Farmland Preservation Board and York County Farm and Natural Lands Trust Board. He also helped to facilitate the merger of two regional police departments, the first in state history.

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. Travis also 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 as Chair on the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization.

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 Chair 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. He is president of the Fayette County Fair Board and a board member. 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 2022 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.

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 2022 Annual Report at ***www.agfirst.com***.

Michael S. Nelson, 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 900 acres rented/owned, and 50 head of Black Angus cows.

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, 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.

Douglas D. Scott, is owner and President of Walnut Hill Farms, Inc., a family-owned and managed cash-grain and vegetable operation consisting of 1,600 acres. Mr. Scott currently holds leadership positions in: Venture Farms, Inc. (Secretary), and Choptank Electric Cooperative (Board member and Treasurer).

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 Masters 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 a freshman 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.

Alan N. Siegfried, Appointed and Outside Director, is a Certified Public Accountant and currently serves as an adjunct professor at the University of Maryland Smith School of Business. His recent professional experience includes serving as the Director of Internal Audit for the Bank Fund Staff Federal Credit Union, and as Auditor General for the InterAmerican Development Bank. He has recently served on the Board and Audit Compliance Committee of Bon Secours Health System, Inc., and as the Vice Chair and a member of the UNICEF Audit Committee, and currently is the Audit Committee Chair of the Pan American Health Organization (PAHO).

Dennis B. Spangler, is an owner/operator of a dairy replacements, crop and solar farm. Mr. Spangler serves as a director on the Union County Conservation District, a member of the Farm Bureau and the Mifflinburg Young Farmers Association.

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, speakers bureau and offering tours to local school children.

Fred N. West, owns and operates a poultry and grain (corn, soybeans, wheat) farm consisting of 2,400 acres (200 owned) and producing 440,000 broilers annually. He is a partner in F & F Farm LLC (poultry) and is also a partner of Fred West Farms LLC (grain).

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. Mr. Wright also serves on the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization.

The following chart details the number of meetings, other activities and additional compensation paid for other activities for each director.

	Days Served			
Name of Director	**Board Meetings**	**Other Official Activities**	**Committee Assignments**	**Compensation for Other Activities***
Shawn D. Wolfinger, *2022 Chair*	6	25	Executive	$ 19,600
David R. Smith, *2022 Vice Chair*	11	60	Audit and Executive	38,250
Richard A. Allen	6	13	Risk and Executive	10,400
Paul D. Baumgardner	11	37	Risk	22,575
Julie A. Bolyard	11	40	Risk	24,050
Samuel BowerCraft, *Appointed and Outside*	6	13	Audit	10,400
Brian L. Boyd	11	60	Compensation & Governance and Executive	35,725
Kevin D. Grim	5	10	Audit	7,500
Steven H. Gross, Jr.	6	13	Risk	9,900
John Travis Hastings	11	40	Compensation & Governance	24,725
Laura M. Heilinger	11	43	Compensation & Governance	26,700
Anthony M. Ill, *Appointed and Outside*	11	46	Risk	28,950
William K. Jackson	6	13	Risk	9,900
T. Jeffrey Jennings	11	43	Compensation & Governance	27,200
Fred R. Moore, Jr.	10	33	Audit	20,050
Michael S. Nelson	11	39	Risk and Executive	22,925
Jennifer L. Rhodes	11	54	Risk	32,450
Paul H. Schmidt	6	15	Compensation & Governance	12,000
Douglas D. Scott	10	34	Audit	18,825
Larry A. Seibert, *Appointed and Outside*	4	6	Audit	4,800
Richard D. Shuman	6	16	Compensation & Governance	12,400
Alan N. Siegfried, *Appointed and Outside*	11	39	Audit	24,275
Dennis D. Spangler	6	10	Risk	8,000
Charles F. Ulmer	6	7	Compensation & Governance	5,600
Christine Waddell	6	9	Compensation & Governance and Executive	6,300
Fred N. West	10	24	Audit	14,275
Charles M. Wright IV	11	46	Audit and Executive	28,225
Total	231	788		$ 506,000

**Included in the Total Compensation amount in the previous table.*

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 customers 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.

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 to shareholders. 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, 2022, the Association paid fees and expenses of $150 for audit services rendered by its independent auditors, PricewaterhouseCoopers LLP, (PwC). No other fees were paid to PwC.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 9, 2023, 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 E. 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 clean 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 to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

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

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

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 2022, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards AU-C 260 and 265 *(The Auditor's Communication With Those Charged With Governance)*. 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 2022. The foregoing report is provided by the following independent directors, who constitute the Committee:

Charles M. Wright, IV
Chair of the Audit Committee

Members of the Audit Committee

Kevin D. Grim
Vice Chair

Samuel BowerCraft
Brian L. Boyd
Sharon McClellan (Newly elected)
Fred R. Moore, Jr.
Larry A. Seibert
David R. Smith

March 9, 2023

Report of Independent Auditors

To the Board of Directors and Management 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, 2022, 2021 and 2020, and the related consolidated statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2022, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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 2022 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 9, 2023

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2022	2021	2020
Assets			
Cash	**$ 24**	$ 344	$ 228
Loans	**6,055,951**	3,040,890	2,905,638
Allowance for loan losses	**(23,306)**	(30,280)	(36,131)
Net loans	**6,032,645**	3,010,610	2,869,507
Loans held for sale	**22**	1	2,894
Other investments	**452**	303	113
Accrued interest receivable	**28,833**	13,092	14,454
Equity investments in other Farm Credit institutions	**75,269**	27,177	30,257
Premises and equipment, net	**28,336**	14,865	15,931
Other property owned	**1,095**	1,368	1,661
Accounts receivable	**36,936**	48,560	43,347
Other assets	**5,418**	3,963	3,726
Total assets	**$ 6,209,030**	$ 3,120,283	$ 2,982,118
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 4,910,198**	$ 2,338,902	$ 2,229,163
Accrued interest payable	**14,099**	4,396	4,430
Patronage refunds payable	**91,144**	80,575	51,791
Accounts payable	**17,950**	5,222	4,188
Advanced conditional payments	**870**	67	48
Other liabilities	**27,273**	19,830	27,174
Total liabilities	**5,061,534**	2,448,992	2,316,794
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**21,883**	11,814	11,400
Additional paid-in-capital	**267,216**	—	—
Retained earnings			
Allocated	**586,676**	407,650	405,105
Unallocated	**271,819**	252,262	249,314
Accumulated other comprehensive income (loss)	**(98)**	(435)	(495)
Total members' equity	**1,147,496**	671,291	665,324
Total liabilities and members' equity	**$ 6,209,030**	$ 3,120,283	$ 2,982,118

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2022	2021	2020
Interest Income			
Loans	**$ 234,395**	$ 129,173	$ 135,777
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**108,347**	51,449	59,708
Net interest income	**126,048**	77,724	76,069
Provision for (reversal of) allowance for loan losses	**(7,001)**	(5,000)	5,000
Net interest income after provision for (reversal of) allowance for loan losses	**133,049**	82,724	71,069
Noninterest Income			
Loan fees	**1,749**	1,805	1,915
Fees for financially related services	**4,355**	3,834	3,817
Patronage refunds from other Farm Credit institutions	**54,221**	48,213	42,934
Gains (losses) on sales of rural home loans, net	**806**	1,414	1,393
Gains (losses) on sales of premises and equipment, net	**323**	320	219
Gains (losses) on other transactions	**272**	259	222
Insurance Fund refunds	**—**	—	553
Other noninterest income	**152**	194	203
Total noninterest income	**61,878**	56,039	51,256
Noninterest Expense			
Salaries and employee benefits	**46,457**	34,524	30,313
Occupancy and equipment	**2,973**	2,027	1,994
Insurance Fund premiums	**7,056**	3,543	2,089
Purchased services	**3,570**	1,821	1,715
Data processing	**1,340**	730	477
Other operating expenses	**12,445**	6,776	6,070
(Gains) losses on other property owned, net	**(176)**	(17)	404
Total noninterest expense	**73,665**	49,404	43,062
Income before income taxes	**121,262**	89,359	79,263
Provision for income taxes	**791**	366	531
Net income	**$ 120,471**	$ 88,993	$ 78,732
Other comprehensive income net of tax			
Employee benefit plans adjustments	**397**	60	(123)
Comprehensive income	**$ 120,868**	$ 89,053	$ 78,609

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, 2019	$ 10,974	$ —	$ 409,174	$ 241,769	$ (372)	$ 661,545
Comprehensive income				78,732	(123)	78,609
Capital stock/participation certificates issued/(retired), net	426					426
Patronage distribution						
Cash				(51,500)		(51,500)
Nonqualified retained earnings			17,695	(17,695)		—
Retained earnings retired			(23,756)			(23,756)
Patronage distribution adjustment			1,992	(1,992)		—
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**

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

Consolidated Statements of Cash Flows

	For the year ended December 31,		
(dollars in thousands)	**2022**	**2021**	**2020**
Cash flows from operating activities:			
Net income	**$ 120,471**	$ 88,993	$ 78,732
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,869**	1,402	1,268
Amortization (accretion) of net deferred loan costs (fees)	**1,286**	1,263	1,468
Amortization (accretion) of yield mark resulting from merger	**(11,640)**	—	—
Provision for (reversal of) allowance for loan losses	**(7,001)**	(5,000)	5,000
(Gains) losses on other property owned	**(236)**	(214)	314
(Gains) losses on sales of premises and equipment, net	**(323)**	(320)	(219)
(Gains) losses on sales of rural home loans, net	**(806)**	(1,414)	(1,393)
(Gains) losses on other transactions	**(272)**	(259)	(222)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(39,308)**	(66,269)	(67,913)
Proceeds from sales of loans held for sale, net	**40,093**	70,576	67,312
(Increase) decrease in accrued interest receivable	**(4,783)**	1,362	1,795
(Increase) decrease in accounts receivable	**20,474**	(5,213)	(13,452)
(Increase) decrease in other assets	**1,029**	(237)	147
Increase (decrease) in accrued interest payable	**4,878**	(34)	(1,366)
Increase (decrease) in accounts payable	**7,351**	1,034	1,440
Increase (decrease) in other liabilities	**(2,324)**	(6,932)	(31)
Total adjustments	**10,287**	(10,255)	(5,852)
Net cash provided by (used in) operating activities	**130,758**	78,738	72,880
Cash flows from investing activities:			
Net (increase) decrease in loans	**(373,681)**	(137,828)	(63,979)
(Increase) decrease in equity investments in other Farm Credit institutions	**(25,735)**	3,080	2,568
Purchases of other investments	**(149)**	(190)	(113)
Net cash acquired in business combination	**7**	—	—
Purchases of premises and equipment	**(1,809)**	(493)	(1,200)
Proceeds from sales of premises and equipment	**541**	477	158
Proceeds from sales of other property owned	**1,006**	876	236
Net cash provided by (used in) investing activities	**(399,820)**	(134,078)	(62,330)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**351,774**	109,739	36,507
Net increase (decrease) in advanced conditional payments	**803**	19	48
Capital stock and participation certificates issued/(retired), net	**139**	414	426
Patronage refunds and dividends paid	**(83,974)**	(54,716)	(27,055)
Retained earnings retired	**—**	—	(23,756)
Net cash provided by (used in) financing activities	**268,742**	55,456	(13,830)
Net increase (decrease) in cash	**(320)**	116	(3,280)
Cash, beginning of period	**344**	228	3,508
Cash, end of period	**$ 24**	$ 344	$ 228
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 162**	$ —	$ —
Receipt of property in settlement of loans	**547**	462	800
Estimated cash dividends or patronage distributions declared or payable	**80,000**	80,500	51,500
Employee benefit plans adjustments (Note 9)	**(397)**	(60)	123
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	**$ 91,906**	$ 51,483	$ 61,074
Taxes (refunded) paid, net	**1,080**	446	368

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

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

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

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

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

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each

Association's assets. The terms of the Direct Notes are governed by a 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. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held no cash in excess of insured amounts.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

determinable fair value are carried at cost less any impairment.

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

Additional information may be found in Note 8.

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

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

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

M. **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.

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

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

Contracts with Customers
The Association maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. As most of the contracts are to

provide access to expertise or system capacity that the Association maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. The Association also does not generally incur costs to obtain contracts. Revenue is recognized to reflect the transfer of goods and services to customers in an amount equal to the consideration the Association receives or expects to receive.

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

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

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

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

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

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

Lessor
The Association 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.

P. **Accounting Standards Updates (ASUs):** In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance and amendments issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date through the life of the financial instrument. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU became effective on January 1, 2023. The Association adopted Topic 326 on January 1, 2023. The impact of adopting the new accounting standard was not material to the Association's consolidated financial statements.

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31,		
	2022	2021	2020
Real estate mortgage	$ 3,529,846	$ 2,000,305	$ 1,866,567
Production and intermediate term	1,454,345	758,322	737,853
Loans to cooperatives	106,603	20,923	27,209
Processing and marketing	425,531	81,753	88,494
Farm-related business	132,515	53,564	48,852
Communication	188,658	42,407	58,449
Power and water/waste disposal	66,369	725	2,646
Rural residential real estate	91,131	57,922	50,612
International	55,563	24,969	24,956
Lease receivables	5,390	–	–
Total loans	$ 6,055,951	$ 3,040,890	$ 2,905,638

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

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

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

	December 31, 2022							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 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
Loans to cooperatives	6,522	–	102,274	–	–	–	108,796	–
Processing and marketing	110,932	88,246	124,661	5,889	77,186	–	312,779	94,135
Farm-related business	1,579	–	–	14,220	14,724	–	16,303	14,220
Communication	57,624	–	134,518	–	–	–	192,142	–
Power and water/waste disposal	20,151	–	47,760	–	–	–	67,911	–
International	2,475	–	53,765	–	–	–	56,240	–
Lease receivables	–	–	5,480	–	–	–	5,480	–
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
Loans to cooperatives	9,765	–	11,205	–	–	–	20,970	–
Processing and marketing	22,744	30,297	3,803	–	3,555	–	30,102	30,297
Farm-related business	1,579	–	65	–	–	–	1,644	–
Communication	17,243	–	25,258	–	–	–	42,501	–
Power and water/waste disposal	–	–	726	–	–	–	726	–
International	–	–	25,000	–	–	–	25,000	–
Total	$ 152,101	$ 106,822	$ 85,682	$ 2,284	$ 3,555	$ –	$ 241,338	$ 109,106

	December 31, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 42,818	$ –	$ –	$ –	$ –	$ –	$ 42,818	$ –
Production and intermediate term	44,076	73,020	30,018	2,135	–	–	74,094	75,155
Loans to cooperatives	11,962	–	15,286	–	–	–	27,248	–
Processing and marketing	37,674	17,892	4,141	–	2,538	–	44,353	17,892
Farm-related business	1,579	496	–	–	–	–	1,579	496
Communication	21,260	–	37,342	–	–	–	58,602	–
Power and water/waste disposal	–	–	2,648	–	–	–	2,648	–
International	–	–	25,000	–	–	–	25,000	–
Total	$ 159,369	$ 91,408	$ 114,435	$ 2,135	$ 2,538	$ –	$ 276,342	$ 93,543

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	December 31, 2022	2021	2020
Real estate mortgage:			
Acceptable	96.64%	94.31%	91.43%
OAEM	1.67	2.62	3.30
Substandard/doubtful/loss	1.69	3.07	5.27
	100.00%	100.00%	100.00%
Production and intermediate term:			
Acceptable	96.63%	94.86%	92.04%
OAEM	1.55	2.65	4.25
Substandard/doubtful/loss	1.82	2.49	3.71
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	70.86%	68.12%
OAEM	0.00	29.14	31.88
Substandard/doubtful/loss	0.00	0.00	0.00
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	98.23%	100.00%	94.63%
OAEM	0.38	0.00	5.37
Substandard/doubtful/loss	1.39	0.00	0.00
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	97.70%	95.35%	92.66%
OAEM	2.07	4.63	6.68
Substandard/doubtful/loss	0.23	0.02	0.66
	100.00%	100.00%	100.00%

	December 31, 2022	2021	2020
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	0.00	0.00	0.00
Substandard/doubtful/loss	0.00	0.00	0.00
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	0.00	0.00	0.00
Substandard/doubtful/loss	0.00	0.00	0.00
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	96.97%	95.97%	95.51%
OAEM	1.70	2.01	2.22
Substandard/doubtful/loss	1.33	2.02	2.27
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	0.00	0.00	0.00
Substandard/doubtful/loss	0.00	0.00	0.00
	100.00%	100.00%	100.00%
Lease receivables:			
Acceptable	98.85%	0.00%	0.00%
OAEM	0.68	0.00	0.00
Substandard/doubtful/loss	0.47	0.00	0.00
	100.00%	0.00%	0.00%
Total loans:			
Acceptable	97.01%	94.61%	91.81%
OAEM	1.44	2.71	3.81
Substandard/doubtful/loss	1.55	2.68	4.38
	100.00%	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest as of:

December 31, 2022	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 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
Loans to cooperatives	–	–	–	106,883	106,883
Processing and marketing	3,859	10,280	14,139	412,985	427,124
Farm-related business	184	5	189	132,834	133,023
Communication	–	–	–	188,813	188,813
Power and water/waste disposal	–	–	–	66,634	66,634
Rural residential real estate	1,296	142	1,438	90,000	91,438
International	–	–	–	56,037	56,037
Lease receivables	–	–	–	5,408	5,408
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
Loans to cooperatives	–	–	–	20,945	20,945
Processing and marketing	–	–	–	81,795	81,795
Farm-related business	169	9	178	53,537	53,715
Communication	–	–	–	42,411	42,411
Power and water/waste disposal	–	–	–	741	741
Rural residential real estate	507	87	594	57,482	58,076
International	–	–	–	25,001	25,001
Total	$ 11,859	$ 17,995	$ 29,854	$ 3,024,128	$ 3,053,982

	December 31, 2020				
	30 Through 89 Days Past Due	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**
Real estate mortgage	$ 6,531	$ 17,770	$ 24,301	$ 1,851,801	$ 1,876,102
Production and intermediate term	3,504	6,349	9,853	732,348	742,201
Loans to cooperatives	–	–	–	27,237	27,237
Processing and marketing	–	–	–	88,652	88,652
Farm-related business	78	15	93	48,952	49,045
Communication	–	–	–	58,454	58,454
Power and water/waste disposal	–	–	–	2,667	2,667
Rural residential real estate	311	252	563	50,182	50,745
International	–	–	–	24,989	24,989
Total	$ 10,424	$ 24,386	$ 34,810	$ 2,885,282	$ 2,920,092

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

	December 31,		
	2022	**2021**	**2020**
Nonaccrual loans:			
Real estate mortgage	$ 24,614	$ 28,474	$ 31,148
Production and intermediate term	7,316	8,540	11,772
Farm-related business	16	9	15
Rural residential real estate	544	625	589
Total	$ 32,490	$ 37,648	$ 43,524
Accruing restructured loans:			
Real estate mortgage	$ 18,280	$ 21,745	$ 28,842
Production and intermediate term	3,554	4,957	7,316
Farm-related business	101	133	164
Rural residential real estate	455	472	490
Total	$ 22,390	$ 27,307	$ 36,812
Accruing loans 90 days or more past due:			
Production and intermediate term	$ 34	$ 220	$ –
Processing and marketing	10,280	–	–
Total	$ 10,314	$ 220	$ –
Total nonperforming loans	$ 65,194	$ 65,175	$ 80,336
Other property owned	1,095	1,368	1,661
Total nonperforming assets	$ 66,289	$ 66,543	$ 81,997
Nonaccrual loans as a percentage of total loans	0.54%	1.24%	1.50%
Nonperforming assets as a percentage of total loans and other property owned	1.09%	2.19%	2.82%
Nonperforming assets as a percentage of capital	5.78%	9.91%	12.32%

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

	December 31,		
	2022	**2021**	**2020**
Impaired nonaccrual loans:			
Current as to principal and interest	$ 15,385	$ 14,953	$ 18,079
Past due	17,105	22,695	25,445
Total impaired nonaccrual loans	$ 32,490	$ 37,648	$ 43,524
Impaired accrual loans:			
Restructured	$ 22,390	$ 27,307	$ 36,812
90 days or more past due	10,314	220	–
Total impaired accrual loans	$ 32,704	$ 27,527	$ 36,812
Total impaired loans	$ 65,194	$ 65,175	$ 80,336
Additional commitments to lend	$ 80	$ 23	$ 413

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	December 31, 2022			Year Ended December 31, 2022	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 8,824	$ 10,908	$ 2,056	$ 6,060	$ 221
Production and intermediate term	5,296	6,264	2,374	3,637	132
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	453	600	92	311	11
Total	$ 14,573	$ 17,772	$ 4,522	$ 10,008	$ 364
With no related allowance for credit losses:					
Real estate mortgage	$ 34,070	$ 40,763	$ –	$ 23,397	$ 851
Production and intermediate term	5,608	9,013	–	3,851	140
Processing and marketing	10,280	10,000	–	7,060	257
Farm-related business	117	217	–	80	3
Rural residential real estate	546	621	–	375	14
Total	$ 50,621	$ 60,614	$ –	$ 34,763	$ 1,265
Total impaired loans:					
Real estate mortgage	$ 42,894	$ 51,671	$ 2,056	$ 29,457	$ 1,072
Production and intermediate term	10,904	15,277	2,374	7,488	272
Processing and marketing	10,280	10,000	–	7,060	257
Farm-related business	117	217	–	80	3
Rural residential real estate	999	1,221	92	686	25
Total	$ 65,194	$ 78,386	$ 4,522	$ 44,771	$ 1,629

	December 31, 2021			Year Ended December 31, 2021	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 9,212	$ 10,920	$ 3,064	$ 10,306	$ 441
Production and intermediate term	5,241	6,007	2,783	5,862	251
Farm-related business	9	25	3	9	1
Rural residential real estate	445	565	90	498	21
Total	$ 14,907	$ 17,517	$ 5,940	$ 16,675	$ 714
With no related allowance for credit losses:					
Real estate mortgage	$ 41,007	$ 45,995	$ –	$ 45,871	$ 1,964
Production and intermediate term	8,476	10,607	–	9,483	406
Farm-related business	133	276	–	150	7
Rural residential real estate	652	752	–	730	31
Total	$ 50,268	$ 57,630	$ –	$ 56,234	$ 2,408
Total impaired loans:					
Real estate mortgage	$ 50,219	$ 56,915	$ 3,064	$ 56,177	$ 2,405
Production and intermediate term	13,717	16,614	2,783	15,345	657
Farm-related business	142	301	3	159	8
Rural residential real estate	1,097	1,317	90	1,228	52
Total	$ 65,175	$ 75,147	$ 5,940	$ 72,909	$ 3,122

Impaired loans:	December 31, 2020 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2020 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 12,022	$ 13,495	$ 4,252	$ 12,304	$ 347
Production and intermediate term	7,374	8,192	3,954	7,548	213
Farm-related business	15	31	4	16	–
Rural residential real estate	398	479	140	407	11
Total	$ 19,809	$ 22,197	$ 8,350	$ 20,275	$ 571
With no related allowance for credit losses:					
Real estate mortgage	$ 47,968	$ 52,119	$ –	$ 49,097	$ 1,383
Production and intermediate term	11,714	14,322	–	11,989	338
Farm-related business	164	307	–	167	5
Rural residential real estate	681	761	–	697	20
Total	$ 60,527	$ 67,509	$ –	$ 61,950	$ 1,746
Total impaired loans:					
Real estate mortgage	$ 59,990	$ 65,614	$ 4,252	$ 61,401	$ 1,730
Production and intermediate term	19,088	22,514	3,954	19,537	551
Farm-related business	179	338	4	183	5
Rural residential real estate	1,079	1,240	140	1,104	31
Total	$ 80,336	$ 89,706	$ 8,350	$ 82,225	$ 2,317

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

	Real Estate Mortgage	Production and Intermediate term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit 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	41	41	(10)	14	28	(7,001)
Balance at December 31, 2022	$ 9,679	$ 11,429	$ 1,722	$ 107	$ 41	$ 264	$ 36	$ 28	$ 23,306
Balance at December 31, 2020	$ 15,617	$ 18,333	$ 1,719	$ 115	$ 2	$ 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)	(49)	(2)	12	–	–	(5,000)
Balance at December 31, 2021	$ 12,282	$ 15,941	$ 1,691	$ 66	$ –	$ 278	$ 22	$ –	$ 30,280
Balance at December 31, 2019	$ 12,754	$ 17,841	$ 998	$ 139	$ 2	$ 441	$ 22	$ –	$ 32,197
Charge-offs	(355)	(682)	(94)	–	–	–	–	–	(1,131)
Recoveries	39	26	–	–	–	–	–	–	65
Provision for loan losses	3,179	1,148	815	(24)	–	(118)	–	–	5,000
Balance at December 31, 2020	$ 15,617	$ 18,333	$ 1,719	$ 115	$ 2	$ 323	$ 22	$ –	$ 36,131
Allowance on loans evaluated for impairment:									
Individually	$ 2,056	$ 2,374	$ –	$ –	$ –	$ 92	$ –	$ –	$ 4,522
Collectively	7,623	9,055	1,722	107	41	172	36	28	18,784
Balance at December 31, 2022	$ 9,679	$ 11,429	$ 1,722	$ 107	$ 41	$ 264	$ 36	$ 28	$ 23,306
Individually	$ 3,064	$ 2,783	$ 3	$ –	$ –	$ 90	$ –	$ –	$ 5,940
Collectively	9,218	13,158	1,688	66	–	188	22	–	24,340
Balance at December 31, 2021	$ 12,282	$ 15,941	$ 1,691	$ 66	$ –	$ 278	$ 22	$ –	$ 30,280
Individually	$ 4,252	$ 3,954	$ 4	$ –	$ –	$ 140	$ –	$ –	$ 8,350
Collectively	11,365	14,379	1,715	115	2	183	22	–	27,781
Balance at December 31, 2020	$ 15,617	$ 18,333	$ 1,719	$ 115	$ 2	$ 323	$ 22	$ –	$ 36,131
Recorded investment in loans evaluated for impairment:									
Individually	$ 21,933	$ 6,752	$ –	$ –	$ –	$ 444	$ –	$ –	$ 29,129
Collectively	3,524,647	1,456,092	667,030	188,813	66,634	90,994	56,037	5,408	6,055,655
Balance at December 31, 2022	$ 3,546,580	$ 1,462,844	$ 667,030	$ 188,813	$ 66,634	$ 91,438	$ 56,037	$ 5,408	$ 6,084,784
Individually	$ 28,474	$ 8,540	$ 9	$ –	$ –	$ 625	$ –	$ –	$ 37,648
Collectively	1,980,676	753,608	156,446	42,411	741	57,451	25,001	–	3,016,334
Balance at December 31, 2021	$ 2,009,150	$ 762,148	$ 156,455	$ 42,411	$ 741	$ 58,076	$ 25,001	$ –	$ 3,053,982
Individually	$ 31,148	$ 11,772	$ 15	$ –	$ –	$ 589	$ –	$ –	$ 43,524
Collectively	1,844,954	730,429	164,919	58,454	2,667	50,156	24,989	–	2,876,568
Balance at December 31, 2020	$ 1,876,102	$ 742,201	$ 164,934	$ 58,454	$ 2,667	$ 50,745	$ 24,989	$ –	$ 2,920,092

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

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 $134, $200, and $357 at December 31, 2022, 2021, and 2020, respectively. Fees paid to Farmer Mac for such commitments totaled $1, $2, and $2 for 2022, 2021, and 2020, respectively.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

	Year Ended December 31, 2022				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 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	$ –

	Year Ended December 31, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
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	–
Processing and marketing	1	–	–	1	–
Rural residential real estate	–	96	–	96	–
Total	$ 639	$ 21,043	$ –	$ 21,682	$ –

	Year Ended December 31, 2020				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 10,865	$ 21,777	$ –	$ 32,642	
Production and intermediate term	442	18,546	–	18,988	
Farm-related business	157	–	–	157	
Rural residential real estate	–	267	–	267	
Total	$ 11,464	$ 40,590	$ –	$ 52,054	
Post-modification:					
Real estate mortgage	$ 10,801	$ 21,473	$ –	$ 32,274	$ –
Production and intermediate term	441	18,516	–	18,957	–
Farm-related business	166	–	–	166	–
Rural residential real estate	–	269	–	269	–
Total	$ 11,408	$ 40,258	$ –	$ 51,666	$ –

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.

	Year Ended December 31,		
Defaulted troubled debt restructurings	**2022**	**2021**	**2020**
Real estate mortgage	$ –	$ 4,457	$ 1,102
Production and intermediate term	–	1,533	1,106
Rural residential real estate	–	91	–
Total	$ –	$ 6,081	$ 2,208

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2022	2021	2020	2022	2021	2020
Real estate mortgage	$ 29,761	$ 36,495	$ 38,730	$ 11,481	$ 14,750	$ 9,888
Production and intermediate term	5,736	9,493	12,484	2,182	4,536	5,168
Farm-related business	101	142	179	–	9	15
Rural residential real estate	590	635	711	135	163	221
Total loans	$ 36,188	$ 46,765	$ 52,104	$ 13,798	$ 19,458	$ 15,292
Additional commitments to lend	$ 80	$ 23	$ 318			

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 $71,566 for 2022, $24,497 for 2021 and $27,633 for 2020. The Association owned 18.72 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled $42.1 billion and shareholders' equity totaled $1.5 billion. The Bank's earnings were $412 million for 2022. In addition, the Association had investments of $3,703 related to other Farm Credit institutions at December 31, 2022.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2022	2021	2020
Land	$ 5,493	$ 2,776	$ 2,844
Buildings and improvements	30,122	17,843	18,058
Furniture and equipment	12,378	8,835	9,060
	47,993	29,454	29,962
Less: accumulated depreciation	19,657	14,589	14,031
Total	$ 28,336	$ 14,865	$ 15,931

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank
Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2022, the Association's notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 5.03 percent for LIBOR-based loans, 5.01 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 5.20 percent for Prime-based loans, and the weighted average remaining maturities were 3.9 years, 4.7 years, and 2.0 years, respectively, at December 31, 2022. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.92 percent, and the weighted average remaining maturity was 11.6 years at December 31, 2022. The weighted average interest rate on all interest-bearing notes payable was 3.43 percent and the weighted average remaining maturity was 9.7 years at December 31, 2022. Variable rate and fixed rate notes payable represent approximately 3.78 percent and 96.22 percent, respectively, of total notes payable at December 31, 2022. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or 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, 2022	2021	2020
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	16.25%	19.53%	20.31%
Tier 1 Capital	6.0%	2.5%	8.5%	16.25%	19.53%	20.31%
Total Capital	8.0%	2.5%	10.5%	16.63%	20.70%	21.66%
Permanent Capital	7.0%	0.0%	7.0%	16.31%	19.75%	20.69%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	17.70%	20.91%	21.68%
URE and UREE Leverage	1.5%	0.0%	1.5%	17.34%	20.79%	21.67%

* *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, 2022:

		Shares Outstanding	
Class	**Protected**	**Number**	**Aggregate Par Value**
C Common/Voting	No	4,031,978	$ 20,160
C Participation Certificates/Nonvoting	No	344,588	1,723
Total Capital Stock and Participation Certificates		4,376,566	$ 21,883

At-risk common stock and participation certificates are retired at the sole discretion of the Association's Board of Directors 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, 2022, allocated members' equity consisted of $586,676 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,		
	2022	**2021**	**2020**
Employee Benefit Plans:			
Balance at beginning of period	$ (435)	$ (495)	$ (372)
Equity re-characterized due to merger	(60)	–	–
Other comprehensive income before reclassifications	384	45	(132)
Amounts reclassified from AOCI	13	15	9
Net current period OCI	397	60	(123)
Balance at end of period	$ (98)	$ (435)	$ (495)

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

	For the Year Ended December 31,			
	2022	**2021**	**2020**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ (13)	$ (15)	$ (9)	See Note 9.
Amounts reclassified	$ (13)	$ (15)	$ (9)	

(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, 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

	December 31, 2020			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 2,826	$ –	$ –	$ 2,826
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 11,459	$ 11,459
Other property owned	$ –	$ –	$ 1,846	$ 1,846

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 $5,189 for 2022, $5,739 for 2021, and $4,514 for 2020. At December 31, 2022, 2021, and 2020, the total liability balance for the FAP Plan was $32,568, $39,135, and $114,449, respectively. The FAP Plan was 95.81 percent, 96.17 percent, and 89.63 percent funded to the projected benefit obligation as of December 31, 2022, 2021, and 2020, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were $868 for 2022, $640 for 2021, and $633 for 2020. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $167,895, $209,599, and $219,990 at December 31, 2022, 2021, and 2020, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. 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. 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 $2,313, $1,642, and $1,435 for the years ended December 31, 2022, 2021, and 2020, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

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 2022, 2021, and 2020, $397, $60 and $(123), respectively, has been recognized as a net credit, a net credit and a net debit, 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 $2,086 and a net under-funded status of $2,086 at December 31, 2022. Assumptions used to determine the projected benefit obligation as of December 31, 2022 included a discount rate of 5.20 percent. The expenses of these nonqualified plans included in noninterest expenses were $172, $84, and $82 for 2022, 2021, and 2020, 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, 2022 amounted to $58,548. During 2022, $28,332 of new loans were made and repayments totaled $29,266. In the opinion of management, none of these loans outstanding at December 31, 2022 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2022, $1,336,888 of commitments to extend credit and $747 of commercial letters of credit were outstanding. The reserve for unfunded commitments totaled $1,500 at December 31, 2022, 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. At December 31, 2022, standby letters of credit outstanding totaled $12,679 with expiration dates ranging from January 1, 2023 to September 1, 2027. The maximum potential amount of future payments that may be required under these guarantees was $12,679.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows.

	Year Ended December 31,		
	2022	2021	2020
Current:			
Federal	$ 638	$ 253	$ 437
State	153	113	94
	791	366	531
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ 791	$ 366	$ 531

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

	December 31,		
	2022	2021	2020
Federal tax at statutory rate	$ 25,465	$ 18,765	$ 16,645
State tax, net	153	113	94
Patronage distributions	(16,800)	(17,598)	(10,815)
Tax-exempt FLCA earnings	(20,599)	(15,691)	(13,498)
Dividends from tax-exempt FLCA	14,417	15,410	8,512
Change in deferred tax asset valuation allowance	(48)	(841)	(275)
Impact of tax reform	–	–	–
Other	(1,797)	208	(132)
Provision (benefit) for income taxes	$ 791	$ 366	$ 531

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

	December 31,		
	2022	2021	2020
Deferred income tax assets:			
Allowance for loan losses	$ 3,395	$ 4,577	$ 5,151
Net operating loss – carryforward	2,221	253	553
Nonaccrual loan interest	663	563	558
Other	257	257	253
Gross deferred tax assets	6,536	5,650	6,515
Less: valuation allowance	(1,957)	(2,017)	(3,016)
Gross deferred tax assets, net of valuation allowance	4,579	3,633	3,499
Deferred income tax liabilities:			
Bank patronage allocation	(3,481)	(2,982)	(2,855)
Loan fees	(1,054)	(651)	(644)
Other	(44)	–	–
Gross deferred tax liability	(4,579)	(3,633)	(3,499)
Net deferred tax asset	$ –	$ –	$ –

At December 31, 2022, 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 $1,957, $2,017 and $3,016 as of December 31, 2022, 2021 and 2020, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

At December 31, 2022 the Company has Federal loss carryforwards totaling approximately $2,221 that expire in varying amounts beginning in 2033. The valuation allowance at December 31, 2022 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, 2022 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2017 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	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

	2020				
	First	Second	Third	Fourth	Total
Net interest income	$ 18,845	$ 17,322	$ 16,985	$ 22,917	$ 76,069
Provision for (reversal of) allowance for loan losses	1,000	2,000	1,000	1,000	5,000
Noninterest income (expense), net	(4,868)	(3,426)	(4,194)	20,151	7,663
Net income	$ 12,977	$ 11,896	$ 11,791	$ 42,068	$ 78,732

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, 2022. The Consolidated Statements of Income and Members' Equity 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 9, 2023, which was the date the financial statements were issued.