PUERTO RICO FARM CREDIT, ACA
2022 ANNUAL REPORT

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Ricardo L. Fernández ....President and Chief Executive Officer
Jorge A. Dulzaides ....Chief Credit Officer
Frances Marquez ....Comptroller

Board of Directors

Rafael J. Borges ....Chairman
Michael J. Serrallés ....Vice Chairman
Héctor A. Santiago .... Second Vice Chairman, Director
Víctor M. Ayala ....Director
José V. Fabre ....Director
Antonio E. Marichal ....External Director and Financial Expert
Marta E. Rodríguez ....External Director and Financial Expert

Message From the Chief Executive Officer

Dear members:

We are grateful to have reached a milestone every company wishes to accomplish, celebrating Puerto Rico Farm Credit's centenary. Celebrating 100 years serving the agricultural sector on the island is no easy task, and we are proud to have a group of stakeholders and partners that support us and help us along this journey. Our focus now is strengthening our food supply chain in the next 100 years through investment, innovation and collaboration. An avant-garde trajectory, our past, present, and future are sustained by being allies of industrious agricultural companies, committed to producing the food that reaches the Puerto Rican table.

We celebrate our people, the feat of reaching a century of solidarity, consistency and credibility is a source of pride for the members and employees of our cooperative. 100 years by the side of the "agroboricua" entrepreneur to reinforce his business and the agricultural industry. 100 transcendental years for the agricultural development of the country. We promote and inspire the agricultural revitalization. With business intelligence, innovative projects, and new technologies, we encourage new generations to make their "agroboricua" dreams a reality and continue to be a valuable business partner to you, our customers.

In parallel with celebrating our centenary and despite the uncertainties that were taking place in the financial sector globally, because of the War in Ukrain, we were able to generate new loans surpassing $25 million in Puerto Rico and in the US through our capital markets group. 2022 marked a fundamental period for Puerto Rico Farm Credit, since we reassured that with the commitment that characterizes us and working as a team, there is no obstacle that stands in the way of set goals, vision and mission we have as your cooperative. We assisted our farmer-members impacted by Hurricane Fiona to help them get back on their feet. We also continued to prepare for the implementation of new systems in 2023 and, we re-incorporated the accounting function to our group, which we had outsourced 7 years ago.

In 2022 the Association reached $6.1 million in net income, driven by a gain on sale of properties of $4,115 thousand. Net interest income decreased $465 thousand comparted to 2021 as rates increased but the deferrals granted after Hurricane Fiona hit the island totaled $900K. We received a special dividend from AgFirst totaling $678 thousand that helped offset higher operating expenses when compared to 2021. The increase in operating expenses were mostly non-recurring expenses and increases due to more normal levels pursuant to the pandemic recovery. Our total loans net of allowance increased in 2022 $10.6 million driven by loan originations in the capital markets. We expect the loan portfolio to remain stable in 2022 as demand for loans stabilizes. This year besides leaving $900 thousand in unpaid interest income due to the deferments granted after Hurricane Fiona, the Board of Directors approved a cash dividend of $1 million. As I said last year, our leaders, experts in agricultural funding, are focused on anticipating your needs so we can provide you the best financial solutions. We aspire to continue determinedly working at educating and supplying the necessary tools to the agrarian sector with our mission of shaping the future of agriculture on the island.

Thank you for your business and trust in our team,

Ricardo L. Fernández
Chief Executive Officer

March 9, 2023

Report of Management

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

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the 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 Puerto Rico 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.

Antonio E. Marichal
Chairman of the Audit Committee

Ricardo L. Fernández
Chief Executive Officer

Frances Marquez
Comptroller

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	**$ 1,244**	$ 96	$ 192	$ 158	$ 662
Loans	**179,723**	169,144	153,426	151,028	149,089
Allowance for loan losses	**(1,189)**	(1,193)	(1,482)	(1,645)	(1,686)
Net loans	**178,534**	167,951	151,944	149,383	147,403
Equity investments in other Farm Credit institutions	**1,982**	1,304	1,385	1,481	1,623
Other property owned	**755**	2,058	2,761	3,491	3,894
Other assets	**3,405**	4,430	3,697	3,180	3,556
Total assets	**$ 185,920**	$ 175,839	$ 159,979	$ 157,693	$ 157,138
Notes payable to AgFirst Farm Credit Bank*	**$ 122,638**	$ 116,482	$ 101,357	$ 99,911	$ 97,533
Accrued interest payable and other liabilities with maturities of less than one year	**2,816**	4,047	3,834	3,020	5,040
Total liabilities	**125,454**	120,529	105,191	102,931	102,573
Capital stock and participation certificates	**514**	470	444	430	453
Unallocated retained earnings	**59,952**	54,840	54,344	54,332	54,112
Total members' equity	**60,466**	55,310	54,788	54,762	54,565
Total liabilities and members' equity	**$ 185,920**	$ 175,839	$ 159,979	$ 157,693	$ 157,138
Statement of Income Data					
Net interest income	**$ 4,076**	$ 4,541	$ 4,420	$ 5,048	$ 5,232
Provision for (reversal of) allowance for loan losses	**(8)**	(408)	(165)	43	(270)
Noninterest income (expense), net	**2,028**	(1,753)	(1,673)	(2,785)	(2,193)
Net income	**$ 6,112**	$ 3,196	$ 2,912	$ 2,220	$ 3,309
Key Financial Ratios					
Rate of return on average:					
Total assets	**3.41%**	1.91%	1.85%	1.43%	2.07%
Total members' equity	**10.79%**	5.75%	5.23%	3.99%	5.96%
Net interest income as a percentage of average earning assets	**2.33%**	2.80%	2.92%	3.40%	3.38%
Net (chargeoffs) recoveries to average loans	**0.002%**	0.073%	0.001%	(0.056)%	0.253%
Total members' equity to total assets	**32.52%**	31.46%	34.25%	34.73%	34.72%
Debt to members' equity (:1)	**2.07**	2.18	1.92	1.88	1.88
Allowance for loan losses to loans	**0.66%**	0.71%	0.97%	1.09%	1.13%
Permanent capital ratio	**32.50%**	33.88%	36.85%	37.51%	40.13%
Common equity tier 1 capital ratio	**32.27%**	33.51%	36.44%	37.11%	39.65%
Tier 1 capital ratio	**32.27%**	33.51%	36.44%	37.11%	39.65%
Total regulatory capital ratio	**33.08%**	34.67%	37.64%	38.25%	40.90%
Tier 1 leverage ratio**	**31.32%**	32.24%	34.45%	34.83%	35.58%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**31.05%**	32.69%	35.02%	35.50%	36.28%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 1,000**	$ 2,700	$ 2,900	$ 2,000	$ 3,000

** 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)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Puerto Rico 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" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916, and has served agricultural producers for over 100 years. The System's mission is to maintain and improve the income and well-being of 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 served (also referred to throughout this Annual Report as stockholders or shareholders). The territory served by the Association covers the entire island of Puerto Rico (PR). Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses.

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 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 on the Association's website, ***www.prfarmcredit.com***, or may be obtained upon request free of charge by calling 1-800-981-3323, or writing Alice Rivera, Puerto Rico Farm Credit, ACA, P.O. Box 363649, San Juan, PR 00936. 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 website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

- political, legal, regulatory and economic conditions and developments in the United States, Puerto Rico 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 the United States and Puerto Rico governments support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies are critical to the understanding of the Association's results of operations and financial position because some accounting policies require the Board and management to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. These policies are 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* management's best estimate of the amount of probable losses existing in and 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, which generally considers relevant historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors. Management considers the allowance for loan losses to have been determined in accordance with generally accepted accounting principles appropriate to the periodic process utilized.

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 borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

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.

PUERTO RICO ECONOMIC CONDITIONS

Puerto Rico has endured a prolonged economic downturn for more than 16 years. GDP and employment continue a downward trend that started in 2006. Since then, Puerto Rico's economy has struggled for multiple reasons, including the lack of a sustainable economic plan, natural disasters and the pandemic. This economic environment is expected to continue over the next 12 months.

The Fiscal Planning Board continues to work on stabilizing the central government finances. A final plan was approved to pay a reduced amount of debt since early 2022.

Besides Puerto Rico's high public debt, there are other critical problems such as, the reconstruction of the island after hurricane Maria, funding of the pension plan for government retirees and high debt leverage of certain public agencies. The federal government has begun releasing funds to rebuild the island and that should provide short-term economic stimulus. The government has to continue improving its operational efficiency to lower operating costs.

Puerto Rico's economy will remain stable but fragile amidst the world recovery of the pandemic and the war in Ukraine. The Association expects to continue to improve performance as interest in local agriculture grows. The Board of Directors and Management will continue to work with the government and other entities in moving forward the island's agricultural sector. Economists continue to forecast a minor increase in GDP of 1.2% due to additional federal funds being received. The forecast over the next three years is for a stable economy which is good for the island as it continues to recover from the pandemic and a plan to pay back the debt is implemented.

Through all this, the agricultural sector's outlook is stable and farmers will continue to fair well under the current market conditions. Additionally, grants from government and non-profit entities will continue to provide liquidity to farmers. This should allow farmers to continue managing their operations profitably and maintain the credit quality of the Association's portfolio while limiting loan growth opportunities.

The local dairy industry production remained stable in 2022 compared to 2021, but with lower overall production. Our member dairy farmers fared acceptable versus the rest of the industry in 2021 but, high production costs and high interest rates may challenge a few of the Association's dairy farmers. The Association continues to monitor events within the industry and their potential impact on the performance of the dairy portfolio. The Association lends almost 37% of total chartered territory loans to the dairy industry and has implemented risk management practices to mitigate concentration risk.

Other agricultural sectors do not represent significant risk for the association. Management monitors all sectors and does not anticipate any adverse impact to the portfolio in 2022.

The Association will continue to find creative ways to fulfill its public mission. Leadership of the ACA believes that agriculture is still viable on the island and has many opportunities ahead. However, the Board of Directors and Management remain cautious of the Association's ability to grow the portfolio under the prevailing economic and political environment.

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 various product types.

The loan volume of the Association as of December 31, 2022 was $179,723, an increase of $10,579 or 6.25% percent as compared to $169,144 at December 31, 2021; and an increase of $15,718 or 10.24 percent compared to $153,426 at December 31, 2020. Net loans outstanding (loans net of the allowance for loan losses) at December 31, 2022 were $178,535 as compared to $167,951 at December 31, 2021 and $151,944 at December 31, 2020. Net loans accounted for 96.03 percent of total assets on December 31, 2022 as compared to 95.51 percent of total assets on December 31, 2021 and 94.98 percent of total assets on December 31, 2020.

The diversification of the Association's loan volume by type for each of the past three years is shown below.

Loan Type	12/31/22	12/31/21	12/31/20
Real estate mortgage	32.13%	35.41%	38.07%
Production and intermediate term	33.80	33.44	26.65
Agribusiness:			
Loans to cooperatives	1.04	1.07	1.11
Processing and marketing	22.40	21.30	19.80
Farm related business	0.03	0.05	0.07
Communication	5.94	3.34	7.59
Rural residential real estate	3.27	4.27	5.48
International	1.39	1.12	1.23
Total	100.00%	100.00%	100.00%

While the Association makes loans and provides financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association's loan portfolio (gross principal balance, net of sold loans) are shown below. The predominant commodities on the island were dairy, tree fruits and processing which constituted 37.93 percent of the entire portfolio at December 31, 2022.

	Percent of Portfolio		
Commodity Group	2022	2021	2020
Participations (net)	41.66%	37.10%	38.08%
Dairy	17.93	20.25	20.25
Tree Fruits	15.21	15.07	15.72
Processing / Food Prep	4.79	6.00	5.55
Field Crops	4.68	4.81	5.02
Cattle / Livestock	4.23	4.27	4.38
Rural Housing	3.32	4.27	5.54
Ornamentals	2.93	3.25	2.88
Misc. Real Estate / Ag Services	3.50	3.23	1.16
Animal Specialties	1.01	1.13	0.73
Poultry	0.74	0.62	0.69
Total	100.00%	100.00%	100.00%

Repayment ability is closely related to the commodities produced by the Association's borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of island dairy producers. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's chartered territory. Even though the concentration of participation loans has steadily increased during the past several years, the agricultural enterprise mix of these loans is diversified, as well as the geographic risk. Management and the Board of Directors continue to believe a major factor protecting the balance sheet and income statement is diversification, spreading both geographic and industry concentration risks.

The increase in gross loan volume for the twelve months ended December 31, 2022 was mainly due to increases in both the originated and participation portfolios.

Additionally, the Association has sold participations of its chartered territory loan portfolio to the Bank for several years. This action has resulted in reductions of the gross principal chartered territory's loan volume of $11,918, $16,527, and $14,514 at December 31, 2022, 2021, and 2020, respectively. The Association did not have any loans sold with recourse. At December 31, 2022, the Association had no one single borrower that comprised more than 3.95 percent of the loans volume.

During the past several years, the Association has been engaged in the buying and selling of loan participations, both from within and outside of the System. This provides a means for the Association to spread geographic and credit concentration risks and realize non-patronage sourced interest and fee income, which strengthens the Association's capital position.

The following table presents the balances concerning the Association's participations purchased and sold portfolios at December 31:

Loan Participations	2022	2021	2020
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 69,940	$ 57,526	$ 57,835
Participations Purchased – Non-FCS Institutions	5,540	5,539	1,556
Total Participations Purchased	$ 75,480	$ 63,065	$ 59,391
Participations Sold	$ 11,921	$ 16,527	$ 14,514

The unamortized premium on Participations purchased was $631, $604, and $72 as of December 31, 2022, 2021 and 2020, respectively. As part of the non-FCS participation portfolio, the Association has purchased participation interests in loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing geographic risk and managing surplus funds as allowable under FCA regulations. At December 31, 2022, the balance of these loans was $5,540 compared to $5,539 at December 31, 2021 and $1,556 at December 31, 2020.

MISSION RELATED INVESTMENTS

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

In October 2005, the FCA authorized AgFirst and the associations of the AgFirst District to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as loans or investments on the Consolidated Balance Sheets depending on the nature of the investment. The Association had no outstanding investment in Rural America Bonds, included as loans on the Consolidated Balance Sheets as of December 31, 2022.

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 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

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. Under FCA regulations, appraisals are required for real estate mortgage loans of more than $250,000. The Association requires an appraisal for all real estate mortgage loans, no matter the size. 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.

Management reviews the credit quality of the loan portfolio on an ongoing basis as part of the Association's 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	94.59%	94.88%	96.43%
Substandard/doubtful/loss	5.41	5.12	3.57
Total	100.00%	100.00%	100.00%

Credit quality declined due to an increase in substandard nonaccrual loans primarily in the Dairy commodity group offset by growth in new loan volume of acceptable credit quality.

NONPERFORMING ASSETS

The Association's loan portfolio is divided into performing and nonperforming categories. A Special Assets Management Department is responsible for servicing loans classified as nonperforming assets. The nonperforming assets, including accrued interest as of December 31, are detailed in the following table:

	12/31/22	12/31/21	12/31/20
	(dollars in thousands)		
Nonperforming Assets			
Nonaccrual loans	$ 5,692	$ 6,517	$ 5,779
Accruing restructured loans	3,070	4,224	4,088
Accruing loans 90 days past due		–	–
Total nonperforming loans	$ 8,762	$ 10,741	$ 9,867
Other property owned	755	2,058	2,761
Total nonperforming assets	$ 9,517	$ 12,799	$ 12,628
Ratios			
Nonaccrual loans to total loans	3.17%	3.85%	3.77%
Nonperforming assets to total assets	5.12%	7.28%	7.89%

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. Nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $825 or 12.65 percent in 2022 primarily nonaccrual payoffs from the Dairy commodity group. Of the $5,692 in nonaccrual loan volume at December 31, 2022, $4,332 or 76.10 percent, as compared to $4,538 or 69.63 percent at December 31, 2021, was considered current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Troubled Debt Restructuring (TDR) 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. As of December 31, 2022, all TDR loans are current and are paying as agreed.

Other property owned decreased by $1,303 or 63.30 percent resulting from the sale of various acquired properties along with write downs due to updated appraisals performed during 2022.

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. The allowance for loan losses was $1,189 at December 31, 2022, as compared with $1,193 and $1,482 at December 31, 2021 and 2020, respectively.

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

Allowance for Loan Losses Activity:	**2022**	**2021**	**2020**
	(dollars in thousands)		
Balance at beginning of year	$ 1,193	$ 1,482	$ 1,645
Charge-offs:			
Real estate mortgage	(24)	–	(2)
Production and Intermediate-term	(11)	–	–
Total charge-offs	$ (35)	$ –	$ (2)
Recoveries:			
Real estate mortgage	31	114	4
Production and Intermediate-term	7	–	–
Agribusiness	–	2	–
Rural residential real estate	1	3	–
Total recoveries	$ 39	$ 119	$ 4
Net (charge-offs) recoveries	$ 3	$ 119	$ 2
Provision for (reversal of allowance for) loan losses	$ (8)	$ (408)	$ (165)
Balance at end of year	$ 1,189	$ 1,193	$ 1,482
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.002)%	0.073%	0.001%

In 2022 charge-offs were primarily associated with Cattle. Decreases in required reserves for collateral risk in the CT portfolio resulted in the Association recording a reversal of allowance for loan losses expense in 2022 and 2021. Decreases in required reserves for the CT dairy industry resulted in the Association recording a reversal of allowance for loan losses expense in 2020.

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)		
Real estate mortgage	$ 378	$ 414	$ 572
Production and intermediate term	385	411	390
Agribusiness	289	261	307
Communication	69	39	111
Rural residential real estate	42	55	84
International	26	13	18
Total allowance	$ 1,189	$ 1,193	$ 1,482

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	0.66%	0.71%	0.97%
Nonperforming loans	13.56%	11.11%	15.02%
Nonaccrual loans	20.88%	18.31%	25.64%

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

For the year ended December 31, 2022, the Association recorded net income which totaled $6,112, increases of $2,916 and $3,200 when compared to $3,196 and $2,912 for the same period of 2021 and 2020, respectively. The increase in net income for the year ended 2022 as compared to 2021 is primarily attributed to gains on other property owned ("OPO") sales. Major components of the change in net income for the past two years are outlined in the following table:

Change in Net Income:	**2022-2021**	**2021-2020**
	(dollars in thousands)	
Net income (loss) (prior year)	$ 3,196	$ 2,912
Increase (decrease) in net income (loss) due to:		
Interest income	762	(42)
Interest expense	(1,227)	163
Net interest income	$ (465)	$ 121
Provision for loan losses	(400)	243
Noninterest income	(807)	352
Noninterest expense	4,588	(432)
Provision for income taxes	–	–
Total change in net income	$ 2,916	$ 284
Net income	$ 6,112	$ 3,196

Net Interest Income

On September 17th 2022 Hurricane Fiona hit Puerto Rico. The hurricane caused damages mainly in the South, Southwest, West and Central areas of the island impacting our farmers. The Association decided to offer a three-month principal maturity extension and interest deferral until the end of the loan for all performing commercial customers of the Association as part of Hurricane Fiona's Relief Program. Such relief program impacted the interest income by $900 approximately. Net interest income in 2022 decreased to $4,076 from $4,541 and

$4,420 in 2021 and 2020, respectively. Interest Income increased by $762 mainly due to increases in the average loan volume outstanding and yields during 2022, offset by Fiona's relief program impact. Interest Expenses increased $1,227 to $3,380 in 2022 from $2,153 and $2,316 in 2021 and 2020, respectively, reflecting higher cost of debt.

The effects of changes in average volume and interest rates on net interest income are summarized in the following table:

Change in Net Interest Income:

	Volume	Rate	Other	Total
12/31/22 – 12/31/21				
Interest income	$ 505	$ 257	$ –	$ 762
Interest expense	220	1,007	–	1,227
Change in net interest income	$ 285	$ (750)	$ –	$ (465)
12/31/21 – 12/31/20				
Interest income	$ 475	$ (517)	$ –	$ (42)
Interest expense	216	(379)	–	(163)
Change in net interest income	$ 259	$ (138)	$ –	$ 121

Please refer to the Consolidated Five-Year Summary of Selected Financial Data in this Annual Report to review key financial ratios pertaining to earnings and net interest income

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	$ 119	$ 131	$ 176	(9.16)%	(25.57)%
Fees for financially related services	1	3	5	(66.67)	(40.00)
Patronage refunds from other Farm Credit institutions	1,738	2,446	2,018	(28.95)	21.21
Gains (losses) on sales of premises and equipment, net	–	–	14	–	(100.00)
Gains (losses) on other transactions	(64)	20	16	(420.00)	25.00
Insurance Fund refunds	–	–	20	–	(100.00)
Other noninterest income	–	1	–	(100)	100.00
Total noninterest income	$ 1,794	$ 2,601	$ 2,249	(31.03)%	15.65 %

The decrease in noninterest income of $807 or 31.03 percent in 2022 compared to 2021 is primarily due to a decrease in patronage refunds from other Farm Credit institutions.

Patronage refunds from other Farm Credit institutions decreased $708 or 28.93 percent mainly due to the decrease in the special patronage dividend from the Bank of $822. The special patronage dividend from the Bank was $678 in 2022 compared to $1,500 and $1,169 in 2021 and 2020, respectively.

Losses on other transactions in 2022 of $64, compared to gains of $20 and $16 in 2021 and 2020, respectively, resulted from the increase in provision for unfunded commission by $51 and from lower gains on other transaction by $34 in 2022.

In 2020, the Association recorded $20 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. This payment is nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

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	$ 1,962	$ 2,226	$ 1,789	(11.85)%	24.43%
Occupancy and equipment	228	194	174	17.35	11.49
Insurance Fund premiums	205	148	81	38.41	82.72
Purchased Services	974	922	859	5.64	7.33
Data processing	47	48	41	(2.08)	17.07
Other operating expenses	1,040	735	689	41.50	7.30
(Gains) losses on OPO, net	(4,690)	81	289	(5890.46)	(71.97)
Total noninterest expense	$ (234)	$ 4,354	$ 3,922	(105.38)%	11.01%

Noninterest expense decreased $4,588 or 105.38 percent for the year ended December 31, 2022, as compared to the same period in 2021, and decreased $432 or 11.01 percent in 2021 compared to 2020. The decrease in 2022 is primarily due to net gains on OPO and to lower salaries and employee compensation, offset by higher operating expenses.

In 2022 the Association recognized a gain on sale of $4,115 and reverses of charge-off by $719, resulting in net gains of $4,690, compared to net losses of $81 and $289 in 2021 and 2020, respectively.

Salaries and employee benefits decreased $264 or 11.85 percent in 2022 mainly due to lower retirement plan expenses.

Other operating expenses increased $356 or 20.89 percent in 2022 mainly from higher director expenses by $104, higher public and members relations by $96, higher professional services by $56, and the net of other operational expenses by $96 such as marketing, travel and advertising.

Income Taxes

The Association recorded no provision for federal income tax for 2022, and no provision for federal income tax for 2021 and 2020. For 2010, the Association incurred a patronage sourced net operating loss which was carried forward to 2013 through 2015, which fully offset patronage sourced taxable income. Therefore, since 2012, any eligible patronage sourced income was not distributed, until 2017 through 2022 when $1,700 in 2017, $3,000 in 2018, $2,000 in 2019, $2,900 in 2020, $2,700 in 2021, and $1,000 in 2022 of eligible patronage source income was distributed to offset patronage source income in each year. As a result, in prior years the Association incurred an immaterial amount of alternative minimum tax due to the alternative minimum tax net operating loss limitation. At December 31, 2022 the Association has Federal loss carryforwards totaling approximately $4 million that expire in varying amounts beginning in 2030. Any portion of the Federal loss carryforwards generated post 2017 does not expire. The Association is exempt from Puerto Rico income tax under Article 23 of the General Cooperative Act of 2004. Please refer to Note 12, Income Taxes, for more specific information.

Key Results of Operations Comparisons

Key results of operations comparisons for 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	For the 12 Months Ended 12/31/21	For the 12 Months Ended 12/31/20
Return on Average Assets	3.41%	1.91%	1.85%
Return on Average Members' Equity	10.79%	5.75%	5.23%
Net Interest Income as a Percentage of Average Earning Assets	2.33%	2.80%	2.92%
Net (Charge-offs) Recoveries to Average Loans	0.00%	0.073%	0.001%

Return on average assets and return on average members' equity increased during 2022 compared to 2021 as a result of an increase in net income in 2022 compared to 2021.

The Association recorded net recoveries of $3 in 2022 which is almost 0.00 percent of average loans compared to net recoveries of $119 or 0.073 percent of average loans in 2021. For the twelve months of 2022, the Association recognized $8 reversal of allowance for loan losses, compared to $408 reversal of allowance for loan losses in 2021 and $165 provision for loan losses for 2020.

The past years have been favorably impacted by the receipt of a special patronage dividend from AgFirst Farm Credit Bank which totaled $678 in 2022, $1,500 in 2021 and $1,169 in 2020. The Association does not forecast continued receipt of these distributions.

The Association's financial goals are operating within safe and sound parameters while generating sufficient income to maintain a highly capitalized Association and to declare and pay an attractive patronage dividend to the members/borrowers of the Association. To accomplish this, the Association must achieve its objectives, which include attracting and retaining quality loan volume, which is competitively priced, while effectively managing risk within the balance sheet and income statement.

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. The Association's capital level effectively creates a borrowing margin between the amount of loans outstanding and the direct loans to the Bank. The margin is commonly referred to as "loanable funds".

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 Association's liquidity practice is to maintain cash balances in a local depository bank at a level that maximizes reduction of the direct note by increasing loanable funds. As borrower payments are received, they are immediately applied to the respective notes payable to the Bank. The Association's participation in investments and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in the Association experiencing a liquidity deficiency.

Total notes payable to the Bank at December 31, 2022 were $122,638 as compared to $116,482 at December 31, 2021 and $101,357 at December 31, 2020. The increase of $6,156 or 5.29 percent mainly corresponds to an increase in loan volume. The average volume of notes payable to the Bank was $120,218 and $109,043 for the years ended December 31, 2022 and 2021, respectively. 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.

The Association had no available lines of credit from third party financial institutions as of December 31, 2022.

The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants. At December 31, 2022, the Association's notes payable were within the specified limitations.

See Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements for additional information on the status of compliance with requirements under the General Financing Agreement.

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 earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to either market indices such as the Prime Rate. Fixed rate loans are priced based on the current cost of Farm Credit System debt of similar terms to maturity. The Association does not offer or include adjustable rate mortgages (ARMS) in its portfolio of loan products.

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

RELATIONSHIP WITH THE BANK

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

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

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding Sources" 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 loan growth and investment in new products and services, as they may become available.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan. There were no material changes to the capital plan for 2021 that affected the minimum stock purchase requirement or would have had an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2022 increased $5,156 or 9.32 percent to $60,466 from $55,310 at December 31, 2021. The increase in the total members' equity was primarily due to the 2022 net income from operations of $6,112 less the $1,000 patronage distribution declared.

Total capital stock and participation certificates were $514 on December 31, 2022, compared to $470 on December 31, 2021 and $444 on December 31, 2020. The Board of Directors continued its commitment to maintain the cooperative equity investment requirement at the regulatory minimum of 2.0 percent of the original loan or $1,000, whichever is less.

FCA sets minimum regulatory capital requirements for System banks and Associations. Capital adequacy is evaluated using a number of regulatory ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2022	2021	2020
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	32.27%	33.51%	36.44%
Tier 1 Capital	6.0%	2.5%	8.5%	32.27%	33.51%	36.44%
Total Capital	8.0%	2.5%	10.5%	33.08%	34.67%	37.64%
Permanent Capital	7.0%	0.0%	7.0%	32.50%	33.88%	36.85%
Non-risk-adjusted ratios:						
Tier 1 Leverage **	4.0%	1.0%	5.0%	31.32%	32.24%	34.45%
URE and UREE Leverage	1.5%	0.0%	1.5%	31.05%	32.69%	35.02%

** Includes fully phased-in capital conservation buffers which became effective January 1, 2020.*
*** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

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

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.

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, if necessary, to increase surplus to meet Association capital adequacy standards, to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to the Association's FLCA subsidiary earned on a non-patronage basis, the remaining taxable earnings of the Association are eligible for allocation and distribution to eligible borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distribution. During the last three years, the Association has declared patronage distributions of $1,000 in 2022, $2,700 in 2021, and $2,900 in 2020.

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

The US Department of Agriculture National Agricultural Statistic Service (NASS) conducted the 2018 Census of Agriculture. They analyzed the data and prepared the 2018 Census of Agriculture for Puerto Rico and its municipalities as of June 9, 2020. The census provides a comprehensive picture of Puerto Rico agriculture in 2018, including Young and Beginning farmer's data. The data indicates that within the Association's chartered territory there were 8,230 reported farmers of which, 326 or 3.96% were Young and 2,243, or 27.25% were Beginning Farmers. The Puerto Rico census does not make available data identifying Small farmers. Between 2012 and 2018, the significant decrease in farmers is also evident in the numbers of Young and Beginning farmers, though the number of Beginning farmers had a greater percentage decrease than the general farmer population. Beginning farmers declined by 51%, while the general number of farmers declined by 37%. In 2012, 34.6% of total farmers were classified as Beginning farmers, while in 2018, this figure dropped to 27.3%.

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. The Association has established annual marketing goals to increase its market share of loans to YBS farmers because of the unique needs of these individuals and their importance to the future growth of the Association. 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 Association's YBS goal and actual number of loans and dollar amount (in thousands) in the loan portfolio as of December 31, 2022:

	Number of Loans		$ Amount of Loans	
	2022 Goal	2022 Actual	2022 Goal	2022 Actual
Young	54	68	$3,424	$4,010
Beginning	223	256	$24,420	$24,418
Small	264	324	$23,149	$26,937

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

The following table outlines the Association YBS goal and the actual results for both number and dollar amount (in thousands) of new loans for the year ended December 31, 2022:

	Number of Loans		$ Amount of New Loans	
	2022 Goal	2022 Actual	2022 Goal	2022 Actual
Young	10	18	$478	$1,045
Beginning	34	59	$1,914	$6,842
Small	34	88	$1,435	$7,616

The following table outlines the Association YBS goal and the actual results as a percentage of number and dollar amount (in thousands) of new loans for the year ended December 31, 2022:

	Number of Loans		$ Amount of New Loans	
	2022 Goal	2022 Actual	2022 Goal	2022 Actual
Young	6%	9%	2%	1%
Beginning	20%	30%	8%	9%
Small	20%	44%	6%	11%

The Association also establishes annual goals for the total number of loans as well as loan volume for YBS borrowers. For 2022, the Association had goal of 10 loans to Young borrowers, 34 loans to Beginning borrowers, and 34 loans to Small borrowers. The actual number of loans closed during the year were well above these goals in all of these categories. The large number of loans to Beginning and Small borrowers, representing a large increase over previous years, was principally due to the success of the Farm Credit Express program, which typically covers loans with relatively low balances used for the purchase of equipment. The program, due to its expedited processing and reduced documentation, has attracted a large number of YBS borrowers, many of which are making their first financed purchase and are new to the Farm Credit System. Furthermore, volumes for the Beginning and Small borrowers were enhanced by the entrance of new state-side investors enticed to invest on the island under the Law 20-22 tax incentive law, which promotes investment by providing very attractive tax rates to individuals establishing residence on the island. Lastly, the volume of Beginning borrowers was also positively impacted by a handful of large loans made to members as part of the generational transfer process.

The Association began to offer equipment loans through the Farm Credit Express program in late 2019. Under this program, customers apply for loans to purchase farm equipment through a network of approved dealers. The credit process is expedited, as the credit decision is principally based on credit scores and not on the traditional credit analysis. The success of the program is reflected in the number of loans made to YBS borrowers, which are above the Association's goals by a significant amount.

Throughout 2020 and 2021, the Association has continued its efforts to serve our YBS borrowers and has actively promoted the YBS program. These promotions are normally done through one-on-one orientations, conferences, trade shows, farmer association meetings, and other similar efforts. The Association has also been proactive in assisting YBS farmers in dealing with the ongoing challenges related to the COVID-19 pandemic. Since the beginning of the COVID-19 pandemic, personal visits, conferences, trade shows, and other such activities have been reduced, and the Association relied almost exclusively on telephone and videoconferencing to maintain contact with its borrowers. As the COVID situation has improved, the opportunities of having in-person seminars has increased. However, customer preferences has resulted in continued use of electronic methods of communications, which has increased the overall contact between the Association and potential YBS borrowers. The Association has also experienced much success in its implementation of Hubspot customer management software.

The following outreach programs were conducted in 2022 as part of the Association's efforts to achieve established goals:

- Participated in several sector-specific meetings, conferences, and trade fairs, where the YBS program was discussed. Many of these were done via virtual meetings and in-person gatherings.
- Continued its personal orientations to potential YBS borrowers, mainly through telephone conversations.
- Experienced credit staff coordinated/participated in the development and implementation of business financial skills training for YBS farmers and students through presentations, conferences, and individual meetings.
- PRFC continues to offer financial education to members and prospective members through Farm Credit University portal
- Supported and/or sponsored programs and activities with the University of Puerto Rico.
- Participated in various educational programs coordinated by the Department of Agriculture, Puerto Rico Farm Bureau and/or the Agronomist Association.
- The Association has been able to increase its services to YBS borrowers through the expansion of the Farm Credit Express equipment lending program, which has benefited many YBS borrowers.

The Chief Credit Officer coordinates the Association's efforts, with the assistance of the Lending Manager, and oversees the YBS program. The Association includes YBS goals in the annual strategic business 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.

* *Young farmers* are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** *Beginning farmers* are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** *Small farmers* are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

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.

LIBOR Transition

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 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 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. See the Association's 2021 Annual Report for further discussion on the LIBOR transition.

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

(dollars in thousands)	**Due in 2023 (On or Before June 30 2023)**	**Due After June 30, 2023**	**Total**
Loans	$ 778	$ 21,859	$ 22,637
Total	$ 778	$ 21,859	$ 22,637
Note Payable to AgFirst Farm Credit Bank	$ 469	$ 14,530	$ 14,999
Total	$ 469	$ 14,530	$ 14,999

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after June 30, 2023 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable.

OTHER MATTERS

During 2021, the Association continued its service agreement with Farm Credit of Florida, ACA for a fee. The provided services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources and, loan on-boarding and servicing. On March 1, 2022, Farm Credit of Florida provided notice of non-renewal of the services agreement effective on the annual renewal date in September 2022. On November 15, 2022 such service agreement ended and a new Accounting Team hired in 2022 officially started operations.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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 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 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, patronage dividend policies or practices, 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.

The Association has an equity investment in a Rural Business Investment Company, Meritus Ventures, L.P, a Delaware Limited Partnership. Meritus Ventures, L.P. is licensed under the Rural Business Investment Program and provides guarantees and grants to promote rural economic development and job opportunities and supplies equity capital investment to small rural enterprises. The Association has a 2.06% ownership in the limited partnership. Additional information may be found in Note 4, *Investments*, of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

The Association holds an equity investment in two (2) LLC's, which are Ethanol Holding Company, LLC (formerly BFE Operating Company, LLC) and CBF Holding, LLC (formerly Clean Burn Fuels, LLC) until the end of 2015.

The Ethanol Holding Company, LLC is a Delaware Limited Liability Company, in which PRFC owns a 0.32900% equity. It was organized for the stated purpose of acquiring holding, managing, preserving and, if appropriate, operating the assets of BFE Operating Company, LLC, Buffalo Lakes Energy, LLC and Pioneer Trail Energy, LLC (the "BFE Entities") and Ethanol Holding Company Minnesota Sub, LLC and Ethanol Holding Company Nebraska Sub, LLC. Such assets have been disposed of pursuant to the terms of the Operating Agreement of Ethanol Holding Company, LLC. However, the entities have not been dissolved until certain legal matters are resolved.

The CBF Holding, LLC is a North Carolina Limited Liability Company, in which PRFC owns 2.89855% equity. Subject to and upon the terms of the Operating Agreement, the stated purpose of the company shall be to acquire, maintain, operate in an idle mode, market, and re-sell the Purchased Assets (an ethanol plant); and to engage in such activities as may be approved by the Majority Interest (collectively, the "Business"), in each case subject to any limitations of the Act or the Applicable Laws of any jurisdiction in which the company transacts business. The company shall be authorized to engage in any and all other activities related to the foregoing. As of the end of 2015, the company had disposed of its assets and is awaiting resolution of certain legal matters to dissolve the company.

Description of Property

The following table sets forth certain information regarding the property of the reporting entity, which is located in San Juan, Puerto Rico:

Location	Description	Form of Ownership
213 Domenech Ave Hato Rey	Administrative/ San Juan Branch	Owned

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

The following represents certain information regarding the senior officers of the Association:

Senior Officer	Position
Ricardo L Fernández	*President & CEO* since February 2011. Former Member of Farm Credit System's Presidents Planning Committee (PPC)for 9 year. Former Chair and active member of the District's Sales & Marketing Committee. He has 26 years of experience in commercial banking, occupying various positions in strategic planning, finance and, small and middle-market commercial lending.

Jorge A Dulzaides	Chief Credit Officer since January 2019, formerly CLO since July 2013. Has 34 years of experience in the Farm Credit System as credit analyst, lending officer, internal auditor and lending manager. Member of the System's FSA Workgroup since 2020. Retired December 31, 2022
Frances M. Márquez	*Comptroller* since July 26, 2022. She has 20 years of experience in commercial banking, occupying various positions in accounting control, strategic planning and financial reporting.

The total amount of compensation earned by the CEO and the five most highly paid 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	Deferred Comp.	Change in Pension Value*	Perquisites/ Other**	Total (a)
Ricardo L. Fernández	2022	$ 240,000	$ 89,078	$ –	$ –	$ 31,247	$ 360,325
Ricardo L. Fernández	2021	$ 240,000	$ 70,567	$ –	$ –	$ 29,597	$ 340,164
Ricardo L. Fernández	2020	$ 240,000	$ 60,930	$ –	$ –	$ 26,976	$ 327,906
5	2022	$ 423,040	$ 71,682	$ –	$ -644,029	$ 48,588	$ -100,719
5	2021	$ 463,221	$ 88,436	$ –	$ 41,806	$ 45,965	$ 639,428
5	2020	$ 462,877	$ 83,148	$ –	$ 453,136	$ 38,914	$ 1,038,075

* *On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders; Pension Benefit Disclosures." The rule amends FCA regulations to exclude 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.*

** *Includes company contributions to 401(k) plan (see Note 9, Employee Benefit Plans, to the Financial Statements), excess annual leave paid, and medical and dental insurance premiums.*

(a) *Disclosure of information on the total compensation paid during 2020 to any senior officer, or to any other individual included in the aggregate, is available to shareholders upon request.*

Pension Benefits Table
As of December 31, 2022

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2022
CEO:					
Ricardo L. Fernández	2022	AgFirst Farm Credit Cash Balance Retirement Plan		$ –	$ –
				$ –	$ –
Senior Officers and Highly Compensated Employees:					
3 employees, excluding the CEO	2022	AgFirst Farm Credit Retirement Plan	*29.56	$ 2,340,165	$ –
3 Total Officers				$ 2,340,165	$ –

* *Number of years credited service represents the average years of credited service for the group.*

The Board of Directors approved a new incentive plan in 2019 for employees of the Association and separately for the CEO, none of the plans have any provisions, in any of the three years, which would allow for or facilitate the deferral of compensation, either salary or bonus.

The Board of Directors approved a new annual bonus plan for Mr. Fernández in 2022. Under the plan the Board of Directors may approve a bonus payment to Mr. Fernandez for achievement of results in 2022. At this time the Board of Directors has not made a determination on a bonus payment for Mr. Fernández' performance in 2022.

In 2022, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved in 2022 additional executive compensation based on certain performance measures achieved in 2021. The amount paid was $87,578. The Bonus category also includes the Christmas bonus required by law in Puerto Rico.

In 2021, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved in 2021 additional executive compensation based on certain performance measures achieved in 2020. The amount paid was $68,617. The Bonus category also includes the Christmas bonus required by law in Puerto Rico and in 2021 a $750 award given to all employees for reaching certain years of service with the Association.

In 2020, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved in 2020 additional executive compensation based on certain performance measures achieved in 2019. The amount paid was $59,730. The Bonus category also includes the Christmas bonus required by law in Puerto Rico.

For the other senior officers or highly paid employees, bonus includes a discretionary bonus approved by the Board of Directors for performance achieved in 2021. It also includes the mandatory payment of a Christmas Bonus required by Commonwealth law each year.

Disclosure of information on the total compensation paid during 2021 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

The present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

The Association provides retirement benefit plans to all employees. Employees' participation in a plan is mostly determined by date of hire. Additional information on the Association's retirement plans can be found in Note 9, *Employee Benefit Plans,* of the Notes to the Consolidated Financial Statements.

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, laundry, registration fees, and other expenses associated with the travel on official business. A copy of the policy is available to the Associations' stockholders upon request.

The aggregate amount of expense or reimbursement for travel, subsistence and other related expenses for all directors as a group was $106,671 for 2022, $36,735 for 2021 and $36,751 for 2020. It is the practice of the Association not to provide noncash compensation to directors. For 2022, there was no noncash compensation provided.

The Board of Directors reviews and determines adequate director compensation to attract qualified directors. All elected stockholder directors are compensated at a per diem rate of $500 for all official activities. Honorarium for all external directors is paid at a per diem rate of $600 and $1,000 for the financial expert.

Directors are also paid honorarium at the per diem rate for travel to and from conferences and meetings when the distance and schedule requires travel on any portion of the day prior to or following the scheduled activity. In addition, all directors were paid a quarterly retainer fee as compensation for incidental services and review/preparation for meetings and assignments. The chairman's retainer fee is $1,100 per quarter and $800 per quarter for all the other directors, including external directors.

Additional information for each Director is provided below:

			Term of Office		Number of Days Served		Compensation Expensed on 2022		
Name of Director	**Position**	**Committee Assignments**	**Election Year**	**Current Term Expiration**	**Board Meetings***	**Other Official Activities***	**Compensation Regular Board Meetings & Retainer**	**Compensation for Other Activities**	**Total Compensation During 2022**
Rafael J. Borges	Chairman	Governance, Compensation & Audit	2021	2025	14.5	25	11,650	12,500	24,150
Michael J. Serrallés	Vice Chairman	Compensation, Audit & Sales and Marketing	2019	2023	13.5	10	9,950	5,000	14,950
Héctor A. Santiago	Second Vice-Chairman	Risk Management & Sales & Marketing	2020	2024	14	22	10,200	11,000	21,200
Víctor M. Ayala	Director	Governance, Risk Management	2020	2024	14	4	10,200	2,000	12,200
José V. Fabre	Director	Risk Management, Sales & Marketing	2022	2026	9.5	4	6,350	2,000	8,350
Marta E. Rodríguez	External Director & Financial Expert	Compensation, Audit	2022	2023	7	5	7,833	5,000	12,833
Antonio E. Marichal	External Director & Financial Expert	Governance & Audit	2021	2025	13.5	4	15,450	4,000	19,450
Pablo A. Rodríguez	Director	Compensation, Risk Management & Sales & Marketing	2017	2022	3	–	2,300	–	2,300
Felipe Ozonas	External Director	Governance, Compensation	2020	2024	4	–	2,500	–	2,500
Total							$76,433	$41,000	$117,433

* Half days are counted as .5 and full days as 1.

All directors shall make themselves available to serve on the loan committee, upon the scheduling of a meeting. Any four directors along with the CEO or his designee shall constitute a quorum for the loan committee. Committee meetings are normally scheduled and held the same day as monthly board of director's meetings. This scheduling method results in there being no separate and/or additional honorarium paid for the various committee meetings.

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years:

Mr. Rafael J. Borges Chairman of the Board since May 2021. He is an equine veterinary specialist and dairy farmer. As a veterinarian he may provide his services to members of the Association from time to time. His dairy farm is located in Isabela, PR. Mr. Borges is President of Isagro, Inc and is a member of "La Cooperativa Productores de Leche (COOPLE)", a dairy industry cooperative. He has been a member of the Board since 2018.

Mr. Michael J. Serrallés Vice Chairman of the Board since May 2021. Mr. Serrallés was elected to the AgFirst Legislative Advisory Council in January 2019. He is a manager and director of Sucesión J. Serrallés, Inc. The corporation grows sod, ornamental plants and coconut palms. The corporation also has farmland leased to seed research companies, for pasture, and to grow bananas, plantains and mangoes. He was first elected to the Board in 2013.

Mr. Héctor A. Santiago Is an ornamental grower in Barranquitas. He owns one of the largest diversified ornamental operations on the island, Cali Nurseries. He is also a member of the PR Farm Bureau. Mr. Santiago is the President of Puerto Rico Farmer's Market, a local farmer's market. He is President of the Porsche Club of America – PR Region. Mr. Santiago has been a board Member since 2020.

Mr. Víctor M. Ayala Is a dairy farmer and cattle rancher with a farm in the neighborhood of Collores, in Humacao. He is the owner of VHE, Inc., who is an association member. Mr. Ayala is a member of "La Cooperativa Productores de Leche (COOPLE)", a dairy industry cooperative. He has been a member of the Board since 2004.

Mr. José V. Fabre Is a banana grower in Sabana Grande. He also grows other fruits and vegetables. He is the President of the "Asociación de Bananeros de PR". He is the Vice President of "Finca Alicante" a relative's farm business. He has been a board member since May 2022.

Marta E. Rodríguez External Director and Financial Expert of the Board. She is a Certified Public Accountant working as Partner, Head of Advisory 3at Kevane Grant Thornton in PR. She is a Director and Treasurer at the "Asociación Hecho en Puerto Rico". She is also a member of the following groups: Puerto Rico State Society of Certified Public Accountants, National Association of Certified Valuation Analysts, Association of Insolvency and Restructuring Advisors and, the American Institute of Certified Public Accountants. She has been a director since July 2022 when she was first appointed.

Mr. Antonio E. Marichal External Director and Financial Expert of the Board. He is a retired partner of the firm Marichal, Hernandez, Santiago & Juarbe, LLC. He continues to practice law as an off counsel of the firm. His list of clients includes several association members and directors for whom he may perform work as the need arises. He practices tax, estate and business law. He is a member of the Bar Association and The Association of Public Notaries of Puerto Rico. He is admitted to practice in Puerto Rico, The U.S. District Court for The District of Puerto Rico, The First Circuit of the U.S. Court of Appeals and The U.S. Tax Court. Originally appointed by the board in 2006. He has been a member of the Board since 2006.

Mr. Pablo A. Rodríguez Was a director until his term expired in April 2022. Is a farmer growing plantains on his farm in San Sebastian. He is a member of the Colegio de Agrónomos de Puerto Rico. He had been a Board member since 2010.

Mr. Felipe Ozonas Was an external director who retired in June 2022. Mr. Ozonas was a coffee, citrus and plantain producer. He was owner of "Hacienda la Balear, Inc." and "Azamar de la Balear, Inc." Originally appointed by the Board in 2017.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2022, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2022.

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 the generally accepted accounting principles or financial statement disclosures during this period.

Aggregate fees expensed by the Association for services rendered by its independent auditors for the year ended December 31, 2022 were as follows:

		2022
Independent Auditors		
PricewaterhouseCoopers LLP		
Audit services	$	105,000
Total	$	105,000

Audit services fees were for the annual audit of the Consolidated Financial Statements.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 9, 2023 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-787-753-5435, or writing Alice Rivera, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936 or accessing the web site, ***www.puertoricofarmcredit.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

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

Report of the Audit Committee

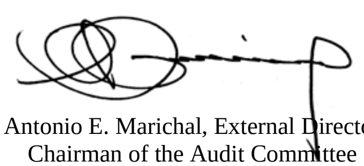
The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Puerto Rico Farm Credit, ACA (Association) and in the opinion of the Board of Directors; each is free of any relationship with the Association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

The Committee has adopted a written charter that has been reviewed, amended and approved by the Board of Directors in 2016. 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 the Statement on Auditing Standards No. 114 (The Auditor's Communication with those charged with Governance). The Committee discussed with PwC its independence from Puerto Rico Farm Credit, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

The members of the Committee are not professionally engaged in the practice of auditing or accounting. The members of the Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the Committee's considerations and discussions referred to above do not assure that the audit of the Association's financial statements has been carried out in accordance with auditing standards generally accepted in the United States of America or that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

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 Audit Committee:



Antonio E. Marichal, External Director
Chairman of the Audit Committee

Members of Audit Committee

Rafael J. Borges
Michael J. Serrallés
Marta E. Rodríguez

March 9, 2023

Report of Independent Auditors

To the Board of Directors and Management of Puerto Rico Farm Credit, ACA

Opinion

We have audited the accompanying consolidated financial statements of Puerto Rico 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

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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	**$ 1,244**	$ 96	$ 192
Loans	**179,723**	169,144	153,426
Allowance for loan losses	**(1,189)**	(1,193)	(1,482)
Net loans	**178,534**	167,951	151,944
Accrued interest receivable	**1,251**	709	488
Equity investments in other Farm Credit institutions	**1,982**	1,304	1,385
Premises and equipment, net	**844**	997	1,112
Other property owned	**755**	2,058	2,761
Accounts receivable	**1,256**	2,641	2,029
Other assets	**54**	83	68
Total assets	**$ 185,920**	$ 175,839	$ 159,979
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 122,638**	$ 116,482	$ 101,357
Accrued interest payable	**415**	188	176
Patronage refunds payable	**1,007**	2,701	2,900
Accounts payable	**402**	223	221
Other liabilities	**992**	935	537
Total liabilities	**125,454**	120,529	105,191
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**514**	470	444
Unallocated retained earnings	**59,952**	54,840	54,344
Total members' equity	**60,466**	55,310	54,788
Total liabilities and members' equity	**$ 185,920**	$ 175,839	$ 159,979

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	**$ 7,456**	$ 6,694	$ 6,736
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**3,380**	2,153	2,316
Net interest income	**4,076**	4,541	4,420
Provision for (reversal of) allowance for loan losses	**(8)**	(408)	(165)
Net interest income after provision for (reversal of) allowance for loan losses	**4,084**	4,949	4,585
Noninterest Income			
Loan fees	**119**	131	176
Fees for financially related services	**1**	3	5
Patronage refunds from other Farm Credit institutions	**1,738**	2,446	2,018
Gains (losses) on sales of premises and equipment, net	**—**	—	14
Gains (losses) on other transactions	**(64)**	20	16
Insurance Fund refunds	**—**	—	20
Other noninterest income	**—**	1	—
Total noninterest income	**1,794**	2,601	2,249
Noninterest Expense			
Salaries and employee benefits	**1,962**	2,226	1,789
Occupancy and equipment	**228**	194	174
Insurance Fund premiums	**205**	148	81
Purchased services	**974**	922	859
Data processing	**47**	48	41
Other operating expenses	**1,040**	735	689
(Gains) losses on other property owned, net	**(4,690)**	81	289
Total noninterest expense	**(234)**	4,354	3,922
Net income	**$ 6,112**	$ 3,196	$ 2,912
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 6,112**	$ 3,196	$ 2,912

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	Unallocated Retained Earnings	Total Members' Equity
Balance at December 31, 2019	$ 430	$ 54,332	$ 54,762
Comprehensive income		2,912	2,912
Capital stock/participation certificates issued/(retired), net	14		14
Patronage distribution			
Cash		(2,900)	(2,900)
Balance at December 31, 2020	$ 444	$ 54,344	$ 54,788
Comprehensive income		3,196	3,196
Capital stock/participation certificates issued/(retired), net	26		26
Patronage distribution			
Cash		(2,700)	(2,700)
Balance at December 31, 2021	$ 470	$ 54,840	$ 55,310
Comprehensive income		**6,112**	**6,112**
Capital stock/participation certificates issued/(retired), net	**44**		**44**
Patronage distribution			
Cash		**(1,000)**	**(1,000)**
Balance at December 31, 2022	**$ 514**	**$ 59,952**	**$ 60,466**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2022	2021	2020
Cash flows from operating activities:			
Net income	**$ 6,112**	$ 3,196	$ 2,912
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**166**	176	147
Amortization (accretion) of net deferred loan costs (fees)	**283**	239	312
Provision for (reversal of) allowance for loan losses	**(8)**	(408)	(165)
(Gains) losses on other property owned	**(4,824)**	18	226
(Gains) losses on sales of premises and equipment, net	**—**	—	(14)
(Gains) losses on other transactions	**64**	(20)	(16)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**(542)**	(221)	60
(Increase) decrease in accounts receivable	**1,385**	(612)	(638)
(Increase) decrease in other assets	**29**	(15)	42
Increase (decrease) in accrued interest payable	**227**	12	(78)
Increase (decrease) in accounts payable	**179**	2	46
Increase (decrease) in other liabilities	**(7)**	418	(38)
Total adjustments	**(3,048)**	(411)	(116)
Net cash provided by (used in) operating activities	**3,064**	2,785	2,796
Cash flows from investing activities:			
Net (increase) decrease in loans	**(10,858)**	(15,782)	(3,065)
(Increase) decrease in equity investments in other Farm Credit institutions	**(678)**	81	96
Purchases of premises and equipment	**(13)**	(61)	(128)
Proceeds from sales of premises and equipment	**—**	—	14
Proceeds from sales of other property owned	**6,127**	629	861
Net cash provided by (used in) investing activities	**(5,422)**	(15,133)	(2,222)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**6,156**	15,125	1,446
Capital stock and participation certificates issued/(retired), net	**44**	26	14
Patronage refunds and dividends paid	**(2,694)**	(2,899)	(2,000)
Net cash provided by (used in) financing activities	**3,506**	12,252	(540)
Net increase (decrease) in cash	**1,148**	(96)	34
Cash, beginning of period	**96**	192	158
Cash, end of period	**$ 1,244**	$ 96	$ 192
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ —**	$ 56	$ 55
Receipt of property in settlement of loans	**—**	—	412
Estimated cash dividends or patronage distributions declared or payable	**1,000**	2,700	2,900
Supplemental information:			
Interest paid	**$ 3,153**	$ 2,141	$ 2,394
Taxes (refunded) paid, net	**—**	—	(45)

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:** Puerto Rico Farm Credit, ACA (Association) is a stockholder-owned cooperative that provides credit and credit-related services to qualified borrowers within the Commonwealth of Puerto Rico. The Association is also authorized by its charter from the Farm Credit Administration to provide the same credit and credit-related services for qualified purposes within the territory of the U.S. Virgin Islands.

The Association is a lending institution in the Farm Credit System (the 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 System wide 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.

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

Other Equity Investments
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.

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.

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.

Since the foregoing plan is 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.

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. However, for Puerto Rico tax purposes, the Association has had a ruling from the Puerto Rico Treasury Department since June 1993 determining that the Association and its subsidiaries will be treated as a domestic cooperative association. Thus, the Association enjoys the exemptions provided by Article 23 of the General Cooperative Association Act of Puerto Rico of 2004, Act No. 239 of September 1, 2004.

The Association operates 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 taxable 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.

The Association has adopted a "pro-rata" method to tax effect only the portion of the Association's temporary differences expected to have a future tax consequence to the Association. The Association intends to have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends. This operating scenario results in zero federal taxable income. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences.

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. **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.

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

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

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

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

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

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

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

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

O. **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	December 31, 2021	December 31, 2020
Real estate mortgage	$ 57,743	$ 59,897	$ 58,406
Production and intermediate-term	60,752	56,557	40,894
Loans to cooperatives	1,866	1,821	1,703
Processing and marketing	40,261	36,032	30,379
Farm-related business	47	78	113
Communication	10,673	5,649	11,642
Rural residential real estate	5,878	7,220	8,400
International	2,503	1,890	1,889
Total loans	$ 179,723	$ 169,144	$ 153,426

A substantial portion of the Association's chartered territory 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	$ 6,270	$ 3,690	$ –	$ –	$ –	$ –	$ 6,270	$ 3,690
Production and intermediate-term	17,835	–	–	–	5,540	–	23,375	–
Loans to cooperatives	1,867	–	–	–	–	–	1,867	–
Processing and marketing	30,788	8,231	–	–	–	–	30,788	8,231
Communication	10,677	–	–	–	–	–	10,677	–
International	2,503	–	–	–	–	–	2,503	–
Total	$ 69,940	$ 11,921	$ –	$ –	$ 5,540	$ –	$ 75,480	$ 11,921

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	$ 7,634	$ 4,000	$ –	$ –	$ 41	$ –	$ 7,675	$ 4,000
Production and intermediate-term	16,718	204	–	–	4,693	–	21,411	204
Loans to cooperatives	1,826	–	–	–	–	–	1,826	–
Processing and marketing	23,790	12,323	–	–	805	–	24,595	12,323
Communication	5,666	–	–	–	–	–	5,666	–
International	1,892	–	–	–	–	–	1,892	–
Total	$ 57,526	$ 16,527	$ –	$ –	$ 5,539	$ –	$ 63,065	$ 16,527

	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	$ 7,400	$ 827	$ –	$ –	$ 46	$ –	$ 7,446	$ 827
Production and intermediate-term	12,827	1,022	–	–	1,510	–	14,337	1,022
Loans to cooperatives	1,707	–	–	–	–	–	1,707	–
Processing and marketing	22,325	12,665	–	–	–	–	22,325	12,665
Communication	11,684	–	–	–	–	–	11,684	–
International	1,892	–	–	–	–	–	1,892	–
Total	$ 57,835	$ 14,514	$ –	$ –	$ 1,556	$ –	$ 59,391	$ 14,514

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	98.75%	98.67%	98.05%
OAEM	0.65	0.66	0.05
Substandard/doubtful/loss	0.60	0.67	1.90
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	84.67%	78.84%	76.13%
OAEM	–	7.05	14.52
Substandard/doubtful/loss	15.33	14.11	9.35
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31,		
	2022	2021	2020
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	95.71%	96.10%	91.88%
OAEM	3.25	–	1.64
Substandard/doubtful/loss	1.04	3.90	6.48
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	94.27%	92.29%	92.45%
OAEM	0.32	2.59	3.98
Substandard/doubtful/loss	5.41	5.12	3.57
	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	$ 20	$ 357	$ 377	$ 57,883	$ 58,260
Production and intermediate-term	2,748	432	3,180	58,088	61,268
Loans to cooperatives	–	–	–	1,870	1,870
Processing and marketing	–	–	–	40,426	40,426
Farm-related business	–	–	–	48	48
Communication	–	–	–	10,677	10,677
Rural residential real estate	446	–	446	5,458	5,904
International	–	–	–	2,521	2,521
Total	$ 3,214	$ 789	$ 4,003	$ 176,971	$ 180,974

	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	$ 204	$ 454	$ 658	$ 59,537	$ 60,195
Production and intermediate-term	295	1,500	1,795	55,008	56,803
Loans to cooperatives	–	–	–	1,822	1,822
Processing and marketing	–	–	–	36,174	36,174
Farm-related business	–	–	–	78	78
Communication	–	–	–	5,650	5,650
Rural residential real estate	218	–	218	7,022	7,240
International	–	–	–	1,891	1,891
Total	$ 717	$ 1,954	$ 2,671	$ 167,182	$ 169,853

	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	$ 256	$ 786	$ 1,042	$ 57,564	$ 58,606
Production and intermediate-term	41	4,748	4,789	36,255	41,044
Loans to cooperatives	–	–	–	1,704	1,704
Processing and marketing	–	–	–	30,487	30,487
Farm-related business	–	–	–	114	114
Communication	–	–	–	11,643	11,643
Rural residential real estate	513	28	541	7,885	8,426
International	–	–	–	1,890	1,890
Total	$ 810	$ 5,562	$ 6,372	$ 147,542	$ 153,914

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

	December 31,		
	2022	2021	2020
Nonaccrual loans:			
Real estate mortgage	$ 1,404	$ 1,604	$ 1,007
Production and intermediate-term	4,288	4,913	4,744
Rural residential real estate	–	–	28
Total	$ 5,692	$ 6,517	$ 5,779
Accruing restructured loans:			
Real estate mortgage	$ 879	$ 1,203	$ 1,633
Production and intermediate-term	2,051	2,870	2,321
Rural residential real estate	140	151	134
Total	$ 3,070	$ 4,224	$ 4,088
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 8,762	$ 10 741	$ 9,867
Other property owned	755	2,058	2,761
Total nonperforming assets	$ 9,517	$ 12,799	$ 12,628
Nonaccrual loans as a percentage of total loans	3.17%	3.85%	3.77%
Nonperforming assets as a percentage of total loans and other property owned	5.27%	7.48%	8.09%
Nonperforming assets as a percentage of total members' equity	15.74%	23.14%	23.05%

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	$ 4,332	$ 4,538	$ 135
Past due	1,360	1,979	5,644
Total	$ 5,692	$ 6,517	$ 5,779
Impaired accrual loans:			
Restructured	$ 3,070	$ 4,224	$ 4,088
90 days or more past due	–	–	–
Total	$ 3,070	$ 4,224	$ 4,088
Total impaired loans	$ 8,762	$ 10,741	$ 9,867
Additional commitments to lend	$ –	$ –	$ –

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	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	217	211	10	253	7
Rural residential real estate	37	37	2	44	1
Total	$ 254	$ 248	$ 12	$ 297	$ 8
With no related allowance for credit losses:					
Real estate mortgage	$ 2,283	$ 2,618	$ –	$ 2,669	$ 74
Production and intermediate-term	6,122	8,322	–	7,160	198
Rural residential real estate	103	100	–	120	3
Total	$ 8,508	$ 11,040	$ –	$ 9,949	$ 275
Total impaired loans:					
Real estate mortgage	$ 2,283	$ 2,618	$ –	$ 2,669	$ 74
Production and intermediate-term	6,339	8,533	10	7,413	205
Rural residential real estate	140	137	2	164	4
Total	$ 8,762	$ 11,288	$ 12	$ 10,246	$ 283

	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	$ 200	$ 199	$ 2	$ 189	$ 7
Production and intermediate-term	422	403	22	400	16
Rural residential real estate	43	42	5	41	2
Total	$ 665	$ 644	$ 29	$ 630	$ 25
With no related allowance for credit losses:					
Real estate mortgage	$ 2,607	$ 2,872	$ –	$ 2,472	$ 99
Production and intermediate-term	7,361	8,567	–	6,979	278
Rural residential real estate	108	107	–	102	4
Total	$ 10,076	$ 11,546	$ –	$ 9,553	$ 381
Total impaired loans:					
Real estate mortgage	$ 2,807	$ 3,071	$ 2	$ 2,661	$ 106
Production and intermediate-term	7,783	8,970	22	7,379	294
Rural residential real estate	151	149	5	143	6
Total	$ 10,741	$ 12,190	$ 29	$ 10,183	$ 406

	December 31, 2020			Year Ended December 31, 2020	
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	$ 526	$ 640	$ 15	$ 561	$ 14
Production and intermediate-term	–	–	–	–	–
Rural residential real estate	20	20	4	21	1
Total	$ 546	$ 660	$ 19	$ 582	$ 15
With no related allowance for credit losses:					
Real estate mortgage	$ 2,114	$ 2,519	$ –	$ 2,253	$ 59
Production and intermediate-term	7,065	7,322	–	7,531	196
Rural residential real estate	142	141	–	152	3
Total	$ 9,321	$ 9,982	$ –	$ 9,936	$ 258
Total impaired loans:					
Real estate mortgage	$ 2,640	$ 3,159	$ 15	$ 2,814	$ 73
Production and intermediate-term	7,065	7,322	–	7,531	196
Rural residential real estate	162	161	4	173	4
Total	$ 9,867	$ 10,642	$ 19	$ 10,518	$ 273

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2021	$ 414	$ 411	$ 261	$ 39	$ –	$ 55	$ 13	$ 1,193
Charge-offs	(24)	(11)	–	–	–	–	–	(35)
Recoveries	31	7	–	–	–	1	–	39
Provision for loan losses	(43)	(22)	28	30	–	(14)	13	(8)
Balance at December 31, 2022	$ 378	$ 385	$ 289	$ 69	$ –	$ 42	$ 26	$ 1,189
Balance at December 31, 2020	$ 572	$ 390	$ 307	$ 111	$ –	$ 84	$ 18	$ 1,482
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	114	–	2	–	–	3	–	119
Provision for loan losses	(272)	21	(48)	(72)	–	(32)	(5)	(408)
Balance at December 31, 2021	$ 414	$ 411	$ 261	$ 39	$ –	$ 55	$ 13	$ 1,193
Balance at December 31, 2019	$ 682	$ 446	$ 287	$ 95	$ 13	$ 101	$ 21	$ 1,645
Charge-offs	(2)	–	–	–	–	–	–	(2)
Recoveries	4	–	–	–	–	–	–	4
Provision for loan losses	(112)	(56)	20	16	(13)	(17)	(3)	(165)
Balance at December 31, 2020	$ 572	$ 390	$ 307	$ 111	$ –	$ 84	$ 18	$ 1,482
Allowance on loans evaluated for impairment:								
Individually	$ –	$ 10	$ –	$ –	$ –	$ 2	$ –	$ 12
Collectively	378	375	289	69	–	40	26	1,177
Balance at December 31, 2022	$ 378	$ 385	$ 289	$ 69	$ –	$ 42	$ 26	$ 1,189
Individually	$ 2	$ 22	$ –	$ –	$ –	$ 5	$ –	$ 29
Collectively	412	389	261	39	–	50	13	1,164
Balance at December 31, 2021	$ 414	$ 411	$ 261	$ 39	$ –	$ 55	$ 13	$ 1,193
Individually	$ 15	$ –	$ –	$ –	$ –	$ 4	$ –	$ 19
Collectively	557	390	307	111	–	80	18	1,463
Balance at December 31, 2020	$ 572	$ 390	$ 307	$ 111	$ –	$ 84	$ 18	$ 1,482
Recorded investment in loans evaluated for impairment:								
Individually	$ 2,283	$ 6,339	$ –	$ –	$ –	$ 140	$ –	$ 8,762
Collectively	55,977	54,929	42,344	10,677	–	5,764	2,521	172,212
Balance at December 31, 2022	$ 58,260	$ 61,268	$ 42,344	$ 10,677	$ –	$ 5,904	$ 2,521	$ 180,974
Individually	$ 2,721	$ 7,943	$ –	$ –	$ –	$ 151	$ –	$ 10,815
Collectively	57,474	48,860	38,074	5,650	–	7,089	1,891	159,038
Balance at December 31, 2021	$ 60,195	$ 56,803	$ 38,074	$ 5,650	$ –	$ 7,240	$ 1,891	$ 169,853
Individually	$ 2,609	$ 7,010	$ –	$ –	$ –	$ 134	$ –	$ 9,753
Collectively	55,997	34,034	32,305	11,643	–	8,292	1,890	144,161
Balance at December 31, 2020	$ 58,606	$ 41,044	$ 32,305	$ 11,643	$ –	$ 8,426	$ 1,890	$ 153,914

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

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. There were no new TDRs that occurred during the year ended December 31, 2022.

	Year Ended December 31, 2021				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 667	$ –	$ 667	
Production and intermediate term	–	951	–	951	
Rural residential real estate	–	28	–	28	
Total	$ –	$ 1,646	$ –	$ 1,646	
Post-modification:					
Real estate mortgage	$ –	$ 665	$ –	$ 665	$ –
Production and intermediate term	–	953	–	953	–
Rural residential real estate	–	28	–	28	–
Total	$ –	$ 1,646	$ –	$ 1,646	$ –

Outstanding Recorded Investment	Year Ended December 31, 2020 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Rural residential real estate	$ –	$ 21	$ –	$ 21	
Total	$ –	$ 21	$ –	$ 21	
Post-modification:					
Rural residential real estate	$ –	$ 21	$ –	$ 21	$ –
Total	$ –	$ 21	$ –	$ 21	$ –

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

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2022	2021	2020	2022	2021	2020
Real estate mortgage	$ 1,906	$ 2,305	$ 1,633	$ 1,027	$ 1,102	$ –
Production and intermediate-term	6,207	7,783	7,010	4,156	4,913	4,689
Rural residential real estate	140	151	134	–	–	–
Total loans	$ 8,253	$ 10,239	$ 8,777	$ 5,183	$ 6,015	$ 4,689
Additional commitments to lend	$ –	$ –	$ –			

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. At December 31, 2022, the Association's investment in the Bank was composed of purchased Class C stock and allocated retained earnings and totaled $1,837. At December 31, 2021 and 2020, the Association's investment in the Bank was also composed of purchased Class C stock and totaled $1,165 and $1,246, respectively. In 2022, the Association received $678 in allocated retained earnings. In addition, in 2021, and 2020, the Association received refunds of excess stock of $5, $81, and $102, respectively, as part of the Bank's annual capital equalization program. The Association owned 0.48 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 held $145 in investments 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 and improvements	$ 131	$ 131	$ 131
Buildings and improvements	2,046	2,046	2,017
Furniture and equipment	1,256	1,243	1,211
	$ 3,433	$ 3,420	$ 3,359
Less: accumulated depreciation	2,589	2,423	2,247
Total	$ 844	$ 997	$ 1,112

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 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 5.01 percent for LIBOR-based loans, 5.07 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 4.96 percent for Prime-based loans, and the weighted average remaining maturities were 2.8 years, 4.8 years, and 5.0 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 2.88 percent, and the weighted average remaining maturity was 7.1 years at December 31, 2022. The weighted average interest rate on all interest-bearing notes payable was 4.15 percent and the weighted average remaining maturity was 5.5 years at December 31, 2022. Variable rate and fixed rate notes payable represent approximately 38.17 percent and 61.83 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, 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 be in an amount equal to 2.0 percent or $1 thousand, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs.

   Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation. At December 31, 2022, the Association had no loans designated for sale, nor were any loans previously sold into the Secondary Market.

   The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers.

   Retirement of such equities is at par ($5 per share). Repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates. Retirements of equity investments are subject to approval by the Board, at its sole discretion. Subject to any limitations of the Farm Credit Act, when the debt of a borrower/stockholder is in default, the Association may order retirement of stock or participation certificates owned by the borrower and apply the proceeds to the indebtedness.

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%	32.27%	33.51%	36.44%
Tier 1 Capital	6.0%	2.5%	8.5%	32.27%	33.51%	36.44%
Total Capital	8.0%	2.5%	10.5%	33.08%	34.67%	37.64%
Permanent Capital	7.0%	0.0%	7.0%	32.50%	33.88%	36.85%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	31.32%	32.24%	34.45%
URE and UREE Leverage	1.5%	0.0%	1.5%	31.05%	32.69%	35.02%

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

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

C. **Description of Equities:** The Association is authorized to issue or have outstanding Class D Preferred Stock, Classes A and C Common Stock, Class C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All classes of 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:

Class	Protected	Shares Outstanding Number	Aggregate Par Value
C Common/Voting	No	80,853	$ 404
C Participation Certificates/Nonvoting	No	21,915	110
Total Capital Stock and Participation Certificates		102,768	$ 514

Common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amount, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account. The minimum amount is determined annually by the Board. At the end of any fiscal year, if the retained earnings account would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board.

Equity Dividends

Equity dividends may be declared and paid on stock and participation certificates as determined by the Board's resolution. All equity dividends shall be paid on a per share basis. Dividends on common stock and participation certificates shall be noncumulative without preference between classes.

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

Patronage Dividends

The Board, by adoption of a resolution, may obligate the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net earnings for the fiscal year. By adoption of resolutions in December, the Board may obligate the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net taxable earnings. Patronage distributions declared are authorized to be paid 100 percent in cash, based on the proportion of each eligible borrower's net interest margin as compared to the total net interest margin earned by all eligible borrowers. The Board of Directors reserves the right to change the basis for the payment of patronage dividends.

If the Association meets its capital adequacy standards after accruing the patronage distribution, the dividend distribution may be paid in cash, authorized stock of the Association, allocations of earnings retained in an allocated member's equity account, or any one or more of such forms of distribution.

Transfer

Each owner or joint owners of Class C Common Stock is entitled to a single vote, regardless of the number of shares owned, while Class A Common Stock, Class D Preferred Stock and Class C Participation Certificates provide no voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock. Common stock and participation certificates may be transferred to any person eligible to hold such class of equity under the bylaws. Class D Preferred Stock may be transferred in the manner set forth in the resolution authorizing its issuance.

Impairment

Under the capitalization bylaw of the Association, all stock and participation certificates are considered to be issued "at risk" and are not protected under the Farm Credit Act. Any net losses recorded by the Association shall first be applied against unallocated retained earnings. To the extent that such losses would exceed unallocated retained earnings, resulting in impairment of the Association's capital stock, such losses would be applied pro rata to each share and/or unit outstanding in the class, in the following order:

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

Liquidation

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

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

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	$ –	$ –	$ –	$ –
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 242	$ 242
Other property owned	$ –	$ –	$ 805	$ 805

	December 31, 2021			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ –	$ –	$ –	$ –
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 636	$ 636
Other property owned	$ –	$ –	$ 2,256	$ 2,256

	December 31, 2020			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ –	$ –	$ –	$ –
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 527	$ 527
Other property owned	$ –	$ –	$ 2,964	$ 2,964

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 two District sponsored qualified benefit plans. These plans include a multiemployer defined benefit pension plan, AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan). In addition, the Association participates in a defined contribution 401(k) plan, the Farm Credit Benefits Alliance (FCBA) 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 $245 for 2022, $704 for 2021, and $479 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 95.81percent, 96.17 percent, and 89.63 percent funded to the projected benefit obligation as of 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 Hacienda. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $111, $102, and $92 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.

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

Note 10 — Related Party Transactions

In the ordinary course of business, the 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 $1,318. During 2022, $413 of new loans and advances were made and repayments totaled $320. In the opinion of management, none of these loans outstanding at December 31, 2022 involved more than the 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, $32,084 of commitments to extend credit and $45 of commercial letters of credit were outstanding with a related reserve for unfunded commitments of $167 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 $323 with expiration dates ranging from January 1, 2023 to August 19, 2026. The maximum potential amount of future payments that may be required under these guarantees was $323.

Note 12 — Income Taxes

The Association recorded $0 provision for federal income tax for 2022, $0 provision for federal income tax for 2021, and a $0 benefit for federal income tax for 2020. For 2010, the Association incurred a patronage sourced net operating loss which was carried forward to 2013 through 2015, which fully offset patronage sourced taxable income. Therefore, since 2012, any eligible patronage sourced income was not distributed, until 2017, 2018, 2019, and 2020 when $1,700 in 2017, $3,000 in 2018, $2,000 in 2019, $2,900 in 2020, $2,700 in 2021, and $1,000 in 2022 of eligible patronage source income was distributed to offset patronage source income in each year. The Association is exempt from Puerto Rico income tax under Article 23 of the General Cooperative Act of 2004. 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	$ 1,284	$ 671	$ 612
Patronage distributions	(210)	(567)	(609)
Tax-exempt FLCA earnings (losses)	(187)	(318)	(218)
Other	(887)	214	215
Provision (benefit) for income taxes	$ –	$ –	$ –

As discussed in Note 2, Income Taxes, the Board and management intend that the ACA will have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends, resulting in zero federal income tax. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences and has no net deferred tax assets.

There were no potential 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. At December 31, 2022 the Association has Federal loss carryforwards totaling approximately $4 million that expire in varying amounts beginning in 2030. Any portion of the Federal loss carryforwards generated post 2017 does not expire.

The tax years that remain open for Federal and Puerto Rico income tax jurisdictions are 2019 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2022				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,056	$ 1,116	$ 831	$ 1,073	$ 4,076
Provision for (reversal of) allowance for loan losses	24	2	62	(96)	(8)
Noninterest income (expense), net	(757)	(1,008)	(863)	4,656	2,028
Net income (loss)	$ 275	$ 106	$ (94)	$ 5,825	$ 6,112

	2021				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,080	$ 1,138	$ 1,092	$ 1,231	$ 4,541
Provision for (reversal of) allowance for loan losses	(28)	(43)	274	(611)	(408)
Noninterest income (expense), net	(761)	(616)	(710)	334	(1,753)
Net income (loss)	$ 347	$ 565	$ 108	$ 2,176	$ 3,196

	2020				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,196	$ 1,097	$ 1,061	$ 1,066	$ 4,420
Provision for (reversal of) allowance for loan losses	(87)	109	1	(188)	(165)
Noninterest income (expense), net	(632)	(765)	(633)	357	(1,673)
Net income (loss)	$ 651	$ 223	$ 427	$ 1,611	$ 2,912

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through March 9, 2023, which was the date the financial statements were issued.

Since February 17, 2023, the Association has been operating under a special credit agreement with the Bank pursuant to its GFA.