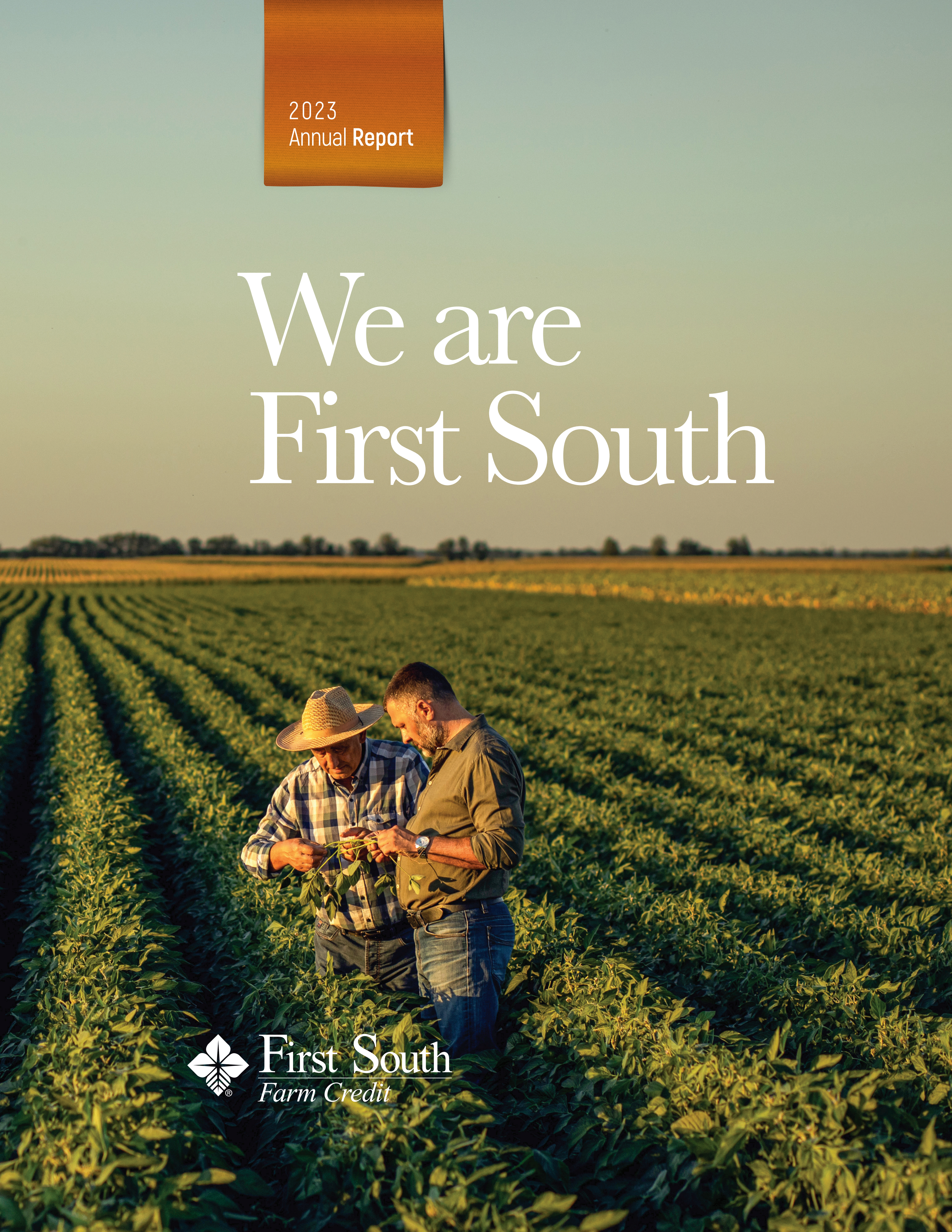
2023
Annual **Report**

We are First South



First South
Farm Credit

FIRST SOUTH FARM CREDIT, ACA
2023 ANNUAL REPORT

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Management

Gines Pérez, III .... President & Chief Executive Officer
Sarah F. Lutz .... Senior Vice President/Chief Financial Officer/Treasurer
William F. Loftis, Jr. .... Senior Vice President/Chief Lending Officer
Cyrus W. Harper, III .... Senior Vice President/Chief Credit Officer
Rodney P. Brantley .... Senior Vice President, Lending
Timothy C. Losavio .... Senior Vice President, Lending
Keith G. McCurdy .... Senior Vice President, Lending

Board of Directors

Thomas H. Nelson, Jr. .... Chairman
Robert Dale Thibodeaux .... Vice Chairman
Adam W. Bass .... Director
Barry A. DeFoor .... Director
Amy C. Ellender .... Director
Dr. Marty J. Fuller .... Director
Richard T. Hargis .... Director
Mitchell H. Henry .... Director
Conner V. House .... Director
John G. Ingraffia .... Director
Wilson E. Judice .... Director
J. Kevin Kimzey .... Director
W. Townsend Kyser, III .... Director
George G. LaCour, Jr. .... Director
Ray L. Makamson .... Director
S. Alan Marsh .... Director
James F. Martin, III .... Director
Daniel C. Mattingly .... Director
R. Shepherd Morris .... Director
Thomas A. Parker .... Director
Michael W. Patrick .... Director
Walter Rodney Richardson .... Director
Roy M. Tucker, Jr. .... Director

Message from the Chief Executive Officer

On behalf of the First South Farm Credit Board of Directors, management, and employees, I am pleased to present the 2023 Annual Report.

Despite tapered loan demand caused by historically swift rate increases, 2023 was another year of strong financial performance for your Association.

Earnings were $60 million in 2023. Core earnings of $52 million were slightly increased from the previous year. This sustained level of core earnings is extremely favorable considering the challenging growth environment of 2023. Loans outstanding on December 31, 2023 were $2.9 billion and remained unchanged from 2022. Loans to new customers exceeded $312 million as your Association continued to successfully serve Members during a cycle of decreased demand.

Year-end Permanent Capital was 17.45% and represents a 2.83% increase from the previous year. Credit Quality remained strong at 99.37% acceptable and special mention while allowance for loan losses held fast at approximately 47 basis points of loans outstanding as of December 31, 2023.

Your Board of Directors assessed earnings, capital position, and financial condition and has declared a patronage distribution of $25.5 million to First South's Member Borrowers. Over the last 29 years, your Association has returned tremendous value to our Members and Rural Communities by declaring over $486 million in patronage. Consistent patronage paid to our Membership for nearly three decades soundly demonstrates First South's commitment to our Cooperative principles.

I'm very proud of the financial performance First South was able to deliver in 2023.

As we focus on 2024, we are expecting a more stabilized rate environment and are optimistic loan demand could return as long as the Federal Reserve's fight against inflation remains effective without further action. Credit quality did not deteriorate in 2023 as anticipated but generational drought in portions of our territory and lower prices across our commodities could increase pressure on producers. First South's loan officers are extremely sensitive to the pressures farm families face during periods of uncertainty and are there to provide support in good times and in bad. First South is here for you – of this, you can be certain.

Innovation and technology advancement remain priorities for 2024 as we refine our loan making process and improve our customer experience. We firmly believe system upgrades will ultimately enhance our ability to serve our Members and continue to be a worthwhile investment that is essential to distinguishing First South as a premier agricultural lender. Our team continues to work closely with our funding Bank to advance through challenges associated with system implementation that have persisted in 2023 and are expected to continue into 2024. At First South, we are intently focused on our Members and will consistently deliver the best possible service regardless of any temporary disruptions new system upgrades may cause.

We are excited to announce our Young Beginning Small (YBS) practices have been reinvigorated and will be rolled out in 2024 in a massive effort to provide opportunities for constructive credit to all potential Members that represent the next generation of agricultural leaders. Additionally, a robust digital marketing strategy has been deployed to reach all market segments and communities that might be interested in pursuing the agricultural lifestyle. First South is working diligently to increase our profile in order to be more responsive to all eligible and creditworthy borrowers by providing access to constructive credit in our three-state territory.

We sincerely appreciate your dedication to agriculture that serves as a secure foundation of our great nation. It is a distinct pleasure to serve you and we look forward to earning the privilege of being your preferred agricultural lender this growing season and beyond. Together we are strong, resourceful, resilient, and committed to our rural communities. Together, we are First South.

May God bless you and keep you,

Gines Pérez, III
President and Chief Executive Officer

March 7, 2024

Report of Management

The accompanying Consolidated Financial Statements and related financial information appearing throughout this annual report have been prepared by management of First South 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 2023 Annual Report of First South 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.

Thomas H. Nelson, Jr.
Chairman of the Board

Gines Pérez, III
Chief Executive Officer

Sarah F. Lutz
Chief Financial Officer

March 7, 2024

Report on Internal Control Over Financial Reporting

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

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

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

Gines Pérez, III
Chief Executive Officer

Sarah F. Lutz
Chief Financial Officer

March 7, 2024

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	**2023**	**2022**	**December 31, 2021**	**2020**	**2019**
Balance Sheet Data					
Cash	**$ 120**	$ 125	$ 206	$ 239	$ 8,694
Loans	**3,030,634**	2,935,532	2,773,183	2,412,630	2,234,582
Allowance for loan losses	**(13,956)**	(20,622)	(19,664)	(17,531)	(14,883)
Net loans	**3,016,678**	2,914,910	2,753,519	2,395,099	2,219,699
Equity investments in other Farm Credit institutions	**91,987**	79,041	65,475	66,694	67,272
Other property owned	**507**	35	406	2,507	1,031
Other assets	**79,650**	67,761	81,834	74,304	61,840
Total assets	**$ 3,188,942**	$3,061,872	$2,901,440	$2,538,843	$2,358,536
Notes payable to AgFirst Farm Credit Bank*	**$ 2,495,740**	$2,411,438	$2,293,490	$1,983,378	$1,845,304
Accrued interest payable and other liabilities with maturities of less than one year	**66,348**	59,745	64,996	74,168	70,061
Total liabilities	**2,562,088**	2,471,183	2,358,486	2,057,546	1,915,365
Capital stock and participation certificates	**52,873**	52,613	53,098	52,326	51,819
Retained earnings					
Allocated	**256,357**	256,357	256,357	256,357	256,357
Unallocated	**324,634**	294,889	248,756	203,004	162,731
Accumulated other comprehensive income (loss)	**(7,010)**	(13,170)	(15,257)	(30,390)	(27,736)
Total members' equity	**626,854**	590,689	542,954	481,297	443,171
Total liabilities and members' equity	**$ 3,188,942**	$3,061,872	$2,901,440	$2,538,843	$2,358,536
Statement of Income Data					
Net interest income	**$ 75,151**	$ 70,931	$ 65,417	$ 61,057	$ 56,892
Provision for credit losses	**538**	1,000	2,640	3,000	1,105
Noninterest income (expense), net	**(14,034)**	(2,840)	9,167	3,367	(11,787)
Net income	**$ 60,579**	$ 67,091	$ 71,944	$ 61,424	$ 44,000
Key Financial Ratios					
Rate of return on average:					
Total assets	**1.97%**	2.24%	2.67%	2.51%	1.93%
Total members' equity	**9.77%**	11.85%	14.32%	13.30%	10.06%
Net interest income as a percentage of average earning assets	**2.55%**	2.45%	2.52%	2.60%	2.61%
Net (chargeoffs) recoveries to average loans	**(0.035)%**	(0.001)%	(0.019)%	(0.015)%	(0.007)%
Total members' equity to total assets	**19.66%**	19.29%	18.71%	18.96%	18.79%
Debt to members' equity (:1)	**4.09**	4.18	4.34	4.28	4.32
Allowance for loan losses to loans	**0.46%**	0.70%	0.71%	0.73%	0.67%
Permanent capital ratio	**17.45%**	16.97%	16.64%	17.34%	17.52%
Common equity tier 1 capital ratio	**17.31%**	16.81%	16.48%	17.15%	17.32%
Tier 1 capital ratio	**17.31%**	16.81%	16.48%	17.15%	17.32%
Total regulatory capital ratio	**17.82%**	17.47%	17.17%	17.86%	17.97%
Tier 1 leverage ratio**	**18.00%**	17.41%	16.94%	17.37%	17.42%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**12.15%**	11.47%	12.15%	12.01%	11.72%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 32,946**	$ 21,000	$ 26,192	$ 21,151	$ 19,300

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

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of First South Farm Credit, ACA, (Association) for the year ended December 31, 2023 with comparisons to the years ended December 31, 2022 and December 31, 2021. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" 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 support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

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

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website***, www.firstsouthland.com,*** or by calling 1-800-955-1722, or writing Sarah Lutz, First South Farm Credit, ACA, Three Paragon Centre, 574 Highland Colony Parkway, Suite 100, Ridgeland, MS 39157. The Association prepares an electronic version of the Annual Report, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

- Political (including trade policies), legal, regulatory and economic conditions and developments in the United States and abroad including wars and regional conflicts, the elevated level of inflation, supply chain disruptions, and potential changes to global trade patterns and agreements;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy that can affect the availability of off-farm sources of income;
- weather-related events, food safety, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- climate change and/or measures to address climate change;
- volatile prices of agricultural commodities;
- changes in production expenses, particularly feed, fuel and fertilizer;
- changes in demand or supply of U.S. agricultural products in a global marketplace;

- changes in farmland and rural real estate values;
- availability of agricultural workers and changes in labor costs;
- disruption of operations or disclosure of confidential information as a result of cybersecurity incidents;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise (GSE), as well as investor and rating-agency reactions to events involving the U.S. Government, other GSEs and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary policy and fiscal policy, as well as other policies and actions of the federal government that impact the financial services industry and the debt markets;
- credit, interest rate, prepayment, and liquidity risk inherent in lending activities; and,
- changes in the Association's assumptions for determining the allowance for loan losses, other-than-temporary impairment and fair value measurements.

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

- *Allowance for credit losses* — On January 1, 2023, the Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments," commonly referred to as the current expected credit losses (CECL) standard, and other subsequently issued accounting standards updates related to credit losses. The allowance for credit losses represents the estimated current expected credit losses over the remaining contractual life of financial assets measured at amortized cost and certain off-balance sheet credit exposures. The allowance takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are not unconditionally cancellable.

  The allowance for credit losses is increased through provisions for credit losses and recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for credit losses is comprised of:

  - the allowance for loan losses
  - the allowance for unfunded commitments, which is presented on the Consolidated Balance Sheets in Other Liabilities, and
  - the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Consolidated Balance Sheets.

  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 credit losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

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

- *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.

- *Pensions — Single Employer Defined Benefit Plan* — Certain employees depending on date of employment may participate in the First South Farm Credit, ACA Retirement Plan (the First South Plan), a defined benefit plan. The First South Plan is noncontributory and includes eligible Association employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. Since the First South Plan is a single employer plan, the Association records the First South Plan's funded status and equity items related to prior service cost, accumulated other comprehensive income (loss) and prepaid (accrued) pension expense. The adjustment to other comprehensive income (loss) would be net of deferred taxes, if significant.

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

See Note 9 for additional information. Pension expense for all plans is recorded in accordance with FASB guidance. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and the discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of the Association's future benefit obligations, which is updated each year. Interest rate changes can lead to significant changes in the discount rate from year to year.

ECONOMIC CONDITIONS

Economic conditions within the Association's territory vary, depending on the sector of the economy in question. The general economy is reasonably sound, although uncertainties exist as a result of a number of factors. These factors include, but are not limited to, rising interest rates, an inflationary environment, rising farming input costs, availability of farm labor, and increased real estate costs. The level of inflation experienced in 2022 caused the Federal Reserve to rapidly raise the Federal Funds rate. While this action has begun to slow the pace of inflation, farm input costs, labor costs and real estate costs have remained high. These factors contributed to a decrease in loan demand during 2023.

Conditions vary widely within the agricultural economy. During 2023, a portion of the Association's territory experienced a severe drought. The drought, along with high input costs and decreased commodity prices, placed stress on farmers that had not been seen in recent years. Managing the cost of production, while successfully marketing crops, continue to present challenges to producers as they strive to generate profits from their operations.

Real estate surpassed poultry to become the Association's largest commodity financed in 2023. Poultry, livestock and forestry comprise the next largest commodity concentrations after real estate. The Association continues to maintain a diverse loan portfolio, which acts and an effective risk management tool in times when one commodity may be experiencing challenges not felt by another commodity.

Credit quality remains stable and sound as the Association's borrowers have managed the challenges of their environment well. The strength of the loan portfolio leaves the Association positioned to weather volatility and adversity in the general and agricultural economies.

LOAN PORTFOLIO

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

Loan Type	2023		2022		2021	
Real estate mortgage	$ 2,390,611	78.88%	$ 2,359,912	80.39%	$ 2,222,461	80.14%
Production and intermediate-term	461,291	15.22	424,215	14.45	410,542	14.8
Processing and marketing	90,353	2.98	88,401	3.01	83,720	3.02
Loans to cooperatives	5,421	.18	5,564	.19	8,553	.31
Farm-related business	32,459	1.07	23,992	.82	24,026	.87
Rural residential real estate	20,927	.69	19,651	.67	17,628	.64
Communication	10,274	.34	10,377	.35	6,253	.22
Power and water/waste disposal	19,298	.64	3,420	.12	–	–
Total	$ 3,030,634	100.00%	$ 2,935,532	100.00%	$ 2,773,183	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, the loan portfolio is diversified. The geographic distribution of the loan volume by state for the past three years is as follows:

	December 31,		
State	2023	2022	2021
Alabama	52.52%	54.16%	57.00%
Mississippi	31.48	29.94	26.71
Louisiana	16.00	15.90	16.29
	100.00%	100.00%	100.00%

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

The major commodities in the Association loan portfolio are shown below. The predominant commodities are real estate, poultry, livestock and forestry, which constitute 71 percent of the entire portfolio.

	December 31,					
	2023		2022		2021	
Commodity Group	Amount	%	Amount	%	Amount	%
Real Estate	$ 765,874	25	$ 754,374	25	$ 700,860	25
Poultry	760,985	25	765,529	26	771,178	28
Livestock	412,708	13	400,259	14	366,358	13
Forestry	237,703	8	217,696	7	220,650	8
Cotton	122,474	4	134,836	5	137,699	5
Soybeans	173,635	6	153,905	5	133,686	5
Sugar Cane	109,007	4	115,249	4	104,934	4
Rice	93,889	3	96,026	3	94,957	3
Catfish	43,634	1	33,748	1	33,026	1
Peanuts	22,631	1	21,261	1	21,627	1
Other	319,986	10	268,755	9	188,208	7
Total	$ 3,062,526	100	$ 2,961,638	100	$ 2,773,183	100

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of real estate, poultry, livestock, forestry, and row crop producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Demand for protein, prices of farm inputs and labor, and international trade are some of the factors affecting the price of these commodities. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified. 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 territory.

The increase in gross loan volume for the twelve months ended December 31, 2023 is spread across several commodities within the portfolio.

The Association's short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance toward the end of summer each year. The balance typically declines in the late fall months as commodities are marketed and proceeds are applied to repay operating loans.

Participations remain a means for the Association to spread credit concentration risk and manage our capital position. At December 31, 2023, the Association had $791,841 in loan participations sold compared to $785,875 at December 31, 2022 and $55,697 at December 31, 2021. The significant increase from 2021 to 2022 was the result of a large participation loan originated by First South.

	December 31,		
Loan Participations:	2023	2022	2021
	(dollars in thousands)		
Participations Purchased– FCS Institutions	$ 103,932	$ 79,292	$ 73,183
Participations Purchased– Non-FCS Institutions	23,480	25,188	26,357
Participations Sold	(791,841)	(785,875)	(55,697)
Total	$ (664,429)	$ (681,395)	$ 43,843

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

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2023, the Association originated loans for resale into the secondary market totaling $688.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every association that it funds. At December 31, 2023, the Association had no investment securities.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association 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. As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

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

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

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

Credit Quality	2023	2022	2021
Acceptable	97.34%	97.77%	97.19%
OAEM	2.04	1.60	1.94
Substandard/doubtful/loss	.62	.63	.87
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. The high-risk assets, including accrued interest, are detailed below:

	December 31,		
High-risk Assets	2023	2022	2021
	(dollars in thousands)		
Nonaccrual loans	$ 8,095	$ 3,361	$ 1,871
Accruing restructured loans	–	272	1,456
Accruing loans 90 days past due	–	5	404
Total high-risk loans	8,095	3,638	3,731
Other property owned	507	35	406
Total high-risk assets	$ 8,602	$ 3,673	$ 4,137
Ratios			
Nonaccrual loans to total loans	.27%	.11%	.07%
High-risk assets to total assets	.28%	.13%	.15%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Total high-risk assets increased $4,929 due to an increase in total high risk loans of $4,457 and in other property owned of $472. It should be noted that portions of the agricultural economy remain unstable, and the portfolio includes accounts that have experienced stress. It is possible that additional loans will transition to high risk status in 2024 and the level of high risk loans is likely to fluctuate significantly throughout the year.

Of the $8,095 in nonaccrual volume at December 31, 2023, $2,627 was current compared to $2,280 and $960 at December 31, 2022 and 2021, respectively. Though the aforementioned nonaccrual loans had volume current as to scheduled principal and interest payments, they did not meet all regulatory requirements to be transferred into accrual status.

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

Allowance for Credit Losses

The allowance for credit losses at each period end was considered by Association management to be adequate to absorb expected losses existing in its loan portfolio.

The following table presents the activity in the allowance for credit losses for the most recent three years is shown below.

	Year Ended December 31,		
Allowance for Credit Losses Activity:	**2023**	**2022**	**2021**
	(dollars in thousands)		
Balance at beginning of year	$ 20,622	$ 19,664	$ 17,531
Cumulative effect of a change in accounting principle	(5,930)	–	–
Balance at January 1, 2023	14,692	19,664	17,531
Charge-offs:			
Real estate mortgage	(59)	(47)	(494)
Production and intermediate-term	(1,004)	(123)	(53)
Total charge-offs	(1,063)	(170)	(547)
Recoveries:			
Real estate mortgage	19	–	4
Production and intermediate-term	12	128	36
Total recoveries	31	128	40
Net (charge-offs) recoveries	(1,032)	(42)	(507)
Provision for (reversal of allowance for) credit losses	296	1,000	2,640
Balance at end of year	$ 13,956	$ 20,622	$ 19,664
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(.035)%	(.001)%	(.018)%

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

	December 31,		
Allowance for Credit Losses by type	**2023**	**2022**	**2021**
	(dollars in thousands)		
Real estate mortgage	$ 11,108	$ 15,717	$ 15,137
Production and intermediate term	2,416	4,025	3,650
Agribusiness	356	687	719
Rural residential real estate	49	120	119
Communication	14	55	39
Water and waste disposal	13	18	–
Total	$ 13,956	$ 20,622	$ 19,664

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

Allowance for Credit Losses as a Percentage of:	December 31, 2023	2022	2021
Total loans	.46%	.70%	.71%
Nonperforming assets	162.24%	561.60%	475.32%
Nonaccrual loans	172.40%	613.75%	1050.99%

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $75.2 million, $70.9 million and $65.4 million in 2023, 2022 and 2021, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income	Volume*	Rate	Nonaccrual Income	Total
		(dollars in thousands)		
12/31/23 – 12/31/22				
Interest income	$ 1,571	$ 22,390	$ –	$ 23,961
Interest expense	468	19,273	–	19,741
Change in net interest income:	$ 1,103	$ 3,117	$ –	$ 4,220
12/31/22- 12/31/21				
Interest income	$ 9,206	$ 10,584	$ –	$ 19,790
Interest expense	3,808	10,468	–	14,276
Change in net interest income:	$ 5,398	$ 116	$ –	$ 5,514

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

Noninterest Income

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

Noninterest Income	For the Year Ended December 31, 2023	2022	2021	Percentage Increase (Decrease) 2023/ 2022	2022/ 2021
		(dollars in thousands)			
Loan fees	$ 3,050	$ 3,640	$ 4,692	(16.21)%	(22.42)%
Fees for financially related services	1,802	1,717	1,136	4.95	51.14
Patronage refund from other Farm Credit Institutions	26,732	35,243	45,904	(24.15)	(23.22)
Gains on sales of premises and equipment, net	824	518	586	59.07	(11.60)
Other noninterest income	49	75	–	(34.67)	100.00
Total noninterest income	$ 32,457	$ 41,193	$ 52,318	(21.21)%	(21.26)%

Total noninterest income decreased by $8,736 from 2022 to 2023 and by $11,125 from 2021 to 2022. The main factor contributing to the decrease was a reduction in patronage refunds from other Farm Credit institutions of $8,511. The decrease in patronage refunds in recent years was a result of the phase-out of special distributions of excess profits issued by AgFirst. A decrease in loan fees of $590 also contributed to the decrease in total noninterest income in 2023. The decrease in loan fees in 2023 over 2022 resulted from slowing growth in new loans and decreased repricing activity.

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, 2023	2022	2021	Percentage Increase/(Decrease) 2023/ 2022	2022/ 2021
	(dollars in thousands)				
Salaries and employee benefits	$ 29,465	$ 30,590	$ 30,221	(3.68) %	1.22 %
Occupancy and equipment	2,197	2,203	1,943	(0.27)	13.38
Insurance Fund premiums	4,157	4,530	3,220	(8.23)	40.68
(Gains) losses on other property owned, net	(5)	(180)	(209)	97.22	13.88
Other operating expenses	10,676	6,853	7,961	55.79	(13.92)
Total noninterest expense	$ 46,490	$ 43,996	$ 43,136	5.67 %	1.99 %

Noninterest expenses increased overall by $2,494 in 2023 compared to 2022. The change was due to an increase in other operating expenses of $3,823, which was primarily the result of actuarial adjustments to the Association's pension plan expense. The increase was partially offset by a decrease in salaries and employee benefits of $1,125, which was primarily the result of retirements of tenured personnel.

Insurance Fund premiums decreased 8.23% for the twelve months ended December 31, 2023, compared to the same period of 2022. The Farm Credit System Insurance Corporation (FCSIC) set premiums at 18 basis points for 2023, based on adjusted insured debt outstanding. FCSIC premiums were set at 20 basis points for 2022 and 16 basis points for 2021. In addition, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments.

Income Taxes

The Association recorded a provision for income taxes of $1 for the year ended December 31, 2023, compared to $37 and $15 for the years ended December 31, 2022 and 2021, respectively. Refer to Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 2023	2022	2021
Return on average assets	1.97%	2.24%	2.67%
Return on average members' equity	9.77%	11.85%	14.32%
Net interest income as a percentage of average earning assets	2.55%	2.45%	2.52%
Net (charge-offs) recoveries to average loans	(0.035)%	(.001)%	(.019)%

A key factor in the growth of net income for future years will be a focus on increasing net interest and noninterest income while maintaining acceptable levels of operating expenses. The Association's goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must withstand uncertainties in the coming years and the Association must meet certain objectives. The objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in the entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2023, was $2,495,740 as compared to $2,411,438 at December 31, 2022 and $2,293,490 at December 31, 2021. The increase of 3.50 percent compared to December 31, 2022 and the increase of 5.14 percent compared to December 31, 2021, are related to continued growth in the loan portfolio. The average volume of outstanding notes payable to the Bank was $2,414,430, $2,385,868 and $2,132,727 for the years ended December 31, 2023, 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.

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

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank. As of December 31, 2023, the Association was in compliance with all GFA covenants.

The Association had no lines of credit from third party financial institutions as of December 31, 2023.

Funds Management

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

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

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

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 growth and investment in new products and services.

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

Total members' equity at December 31, 2023 increased 6.12 percent to $626,854 from the December 31, 2022 total of $590,689. At December 31, 2022, total members' equity increased 8.79 percent from the December 31, 2021 total of $542,954. The increase in 2023 from 2022 was primarily attributable to an increase in unallocated retained earnings of $29,745. The increase in total members' equity to 2022 from 2021 was primarily attributable to an increase in unallocated retained earnings of $46,133.

Total capital stock and participation certificates were $52,873 December 31, 2023, compared to $52,613 at December 31, 2022 and $53,098 at December 31, 2021. See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, 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 the net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $25,509 in 2023, $21,000 in 2022, and $26,000 in 2021. These patronage distribution totals do not include pass-through patronage associated with certain capital markets loans.

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

The Association's mission includes providing sound and constructive credit and related services to Young, Beginning and Small (YBS) farmers and ranchers. First South's mission is directed by board and management to ensure the Association is making every effort possible to implement its YBS program.

The Association has implemented a flexible YBS program with policies and procedures that are designed to meet the needs of YBS farmers in the Association's geographic territory. The First South Board approves the YBS policy as well as the annual business plan which outlines practices to accomplish the First South YBS mission.

YBS farmers and ranchers are defined as:

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

The Association's Young, Beginning, and Small farmer and rancher program (YBS) complies with statutory and regulatory requirements which include qualitative and quantitative goals. Goals include coordinating with government agencies that offer loan guarantees for risk management purposes. First South is an FSA approved lender.

The Association business plan also outlines strategies to increase market share success, a market outreach program that generates participation and involvement by Association staff at the field level. Strategies include (1) YBS Program on the Association website, (2) First South Market Outreach Program, (3) First South Diversity and Inclusion Marketing Plan (4) Country Loan and Small Loan Program, and (5) sponsorships and educational programs. The final results of these outreach and education programs are reported to the Association Board of Directors on an annual basis.

The Association business plan also includes a budget recommended by management that is sufficient to carry out the Association's YBS mission and performance goals.

The following table outlines the loan volume and number of YBS loans in the loan portfolio as of December 31, 2023 for the Association.

	As of December 31, 2023	
	Number of Loans	Amount of Loans
Young	3,268	$522,878
Beginning	8,012	$1,297,546
Small	10,528	$1,342,745

For purposes of the above table, a loan could be included in more than one of the categories depending on the characteristics of the underlying borrower.

The 2017 USDA Ag Census data has been used as a benchmark to measure penetration of the Association YBS marketing efforts. The USDA Ag Census data prepared and provided by AgFirst Farm Credit Bank shows the number of YBS farmers in First South Farm Credit Association's territory as of December 31, 2017: Young (13,037); Beginning (46,224); Small (143,620).

The AgFirst demographics show First South segment penetration as a percentage of Association territory totals as follows: Young 13.9%; Beginning 9.4%; Small 4.5%. As of December 31, 2023, of the Association's total portfolio; 17.07% were Young farmers; 42.37% were Beginning farmers; and 43.84% were Small farmers.

Data Source: USDA-NASS 2017 Ag Census of Agriculture Volume I: Geographic Area Series Tables 2 and 45. Other data from AgFirst FCB Marquis standard reports period ending December 2020.

Slight differences between the Census and our YBS information are as follows:

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

Capital Ratios

The following sets forth the regulatory capital ratios:

Ratio	Regulatory Minimum, Including Buffer*	Capital Ratios as of 2023	2022	2021
Risk-adjusted ratios:				
CET1 Capital Ratio	7.00%	17.31%	16.81%	16.48%
Tier 1 Capital Ratio	8.50%	17.31%	16.81%	16.48%
Total Capital Ratio	10.50%	17.82%	17.47%	17.17%
Permanent Capital Ratio	7.00%	17.45%	16.97%	16.64%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	5.00%	18.00%	17.41%	16.94%
UREE Leverage Ratio	1.50%	12.15%	11.47%	12.15%

** Includes fully phased-in capital conservation buffers which were effective as of January 1, 2020.*

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.

REGULATORY MATTERS

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

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

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

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

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

LIBOR Transition

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

The Association successfully implemented a LIBOR transition plan in accordance with FCA's guidance to address the risks associated with the discontinuation of LIBOR. All Association LIBOR loans have been fully phased out as of December 31, 2023.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Unincorporated Business Entities

At December 31, 2023, the Association had no investment in Unincorporated Business Entities (UBEs).

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Alabama, Mississippi and Louisiana:

Location	Description	Form of Ownership
574 Highland Colony Pkwy., Ridgeland, MS	Administrative	Leased
2341 AL Hwy. 21 South, Oxford, AL	Branch	Owned
1824 Eva Road NE, Cullman, AL	Branch	Owned
3201 AL Hwy. 157, Suite 200, Cullman, AL	Underwriting	Leased
320 AL Hwy. 75 N, Albertville, AL	Branch	Owned
1960 Stonegate Drive, Vestavia Hills, AL	Branch	Owned
30035 Hwy. 72 West, Madison, AL	Branch	Owned
14390 Market Street, Moulton, AL	Branch	Owned
970 Hwy. 20 East, Tuscumbia, AL	Branch	Owned
700 Hwy. 80 West, Demopolis, AL	Branch	Owned
4210 McFarland Blvd., Northport, AL	Branch	Owned
1715 West Second Street, Montgomery, AL	Branch	Owned
1401 Forest Avenue, Montgomery, AL	Branch	Owned
141 Lee Street, Luverne, AL	Branch	Owned
4442 South US Highway 231, Ozark, AL	Branch	Owned
1613 Fredrick Road, Opelika, AL	Branch	Owned
41655 State Hwy 59, Bay Minette, AL	Branch	Owned
5070 Boll Weevil Circle, Enterprise, AL	Branch	Owned
1103 Bypass West, Andalusia, AL	Branch	Owned
260 Trace Colony Park Drive, Ridgeland, MS	Branch	Owned
914 Van Buren Avenue, Oxford, MS	Branch	Owned
1626 N Veterans Memorial Blvd., Tupelo, MS	Branch	Leased
306 E. Jefferson Street, Aberdeen, MS	Branch	Owned
1009 North Main Street, Calhoun City, MS	Branch	Owned
1089D Stark Road, Starkville, MS	Branch	Leased
1703 Hwy 82 W Frontage Road, Greenwood, MS	Branch	Owned
197 George Payne Cossar Blvd., Charleston, MS	Branch	Owned
122 Main Street, Indianola, MS	Branch	Leased
505 E. Second Street, Clarksdale, MS	Branch	Owned
1021 Highway 82 East, Leland, MS	Branch	Owned
9769 Eastside Drive Extension, Newton, MS	Branch	Owned
501 Apache Drive, McComb, MS	Branch	Owned

Location	Description	Form of Ownership
4 Thompson Park, Hattiesburg, MS	Branch	Owned
23 Dunnbarr, Laurel, MS	Branch	Owned
19550 Old Scenic Hwy., Zachary, LA	Branch	Owned
222 N. Cedar Street, Tallulah, LA	Branch	Owned
1896 Hudson Circle, Suite 7, Monroe, LA	Branch	Leased
811 Jackson Street, Winnsboro, LA	Branch	Owned
2308 S. MacArthur Drive, Alexandria, LA	Branch	Owned
321 South Main Street, Marksville, LA	Branch	Owned
5057 I-49 S. Service Road, Opelousas, LA	Branch	Owned
1007 Guy Dr. Street, Martinville, LA	Branch	Owned
3206 South LA 13, Crowley, LA	Branch	Owned
4925 East McNeese Street, Lake Charles, LA	Branch	Owned
60050 Westway Drive, Amite, LA	Branch	Owned
1725 St. Mary Hwy., Thibodaux, LA	Branch	Owned

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

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

Senior Officer	Position & Other Business Interests
Gines Pérez, III	*President & Chief Executive Office since January 2023. Prior to that, Senior Vice President/Chief Operating Officer since January 2021. Prior to that, Senior Vice President/Chief Credit Officer since September 2019, Prior to that, Senior Vice President/Chief Lending Officer since July 2018, Prior to that, Executive Vice President/Chief Credit Officer-AgChoice Farm Credit since February 2016, and prior to that, Relationship Manager and various other roles and responsibilities-AgFirst Farm Credit Bank since June 2010.*
Sarah F. Lutz	*Senior Vice President/Chief Financial Officer/Treasurer since January 2021.*
William F. Loftis, Jr.	*Senior Vice President/Chief Lending Officer since January 2022.*
Cyrus W. Harper, III	*Senior Vice President/Chief Credit Officer since January 2021.*
Timothy C. Losavio	*Senior Vice President, Lending since January 2022. Prior to that, President, Louisiana Division since January 2020. Prior to that, Regional Lending Manager, Louisiana Division.*
Rodney P. Brantley	*Senior Vice President, Lending since January 2022. Prior to that, President, Mississippi Division since July 2017. Prior to that, Division Vice President, Mississippi Division.*
Keith G. McCurdy	*Senior Vice President, Lending since January 2022.Prior to that, Regional Lending Manager, Alabama Division.*

The total amount of compensation earned by the CEO and senior officers as a group during the years ended December 31, 2023, 2022 and 2021, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value	Perq/ Other*	Total
Gines Pérez, III	2023	$ 350,000	$ 80,000	$ –	$ –	$ 38,932	$ 468,932
John W. Barnard	2022	$ 430,000	$ 150,000	$ –	$ (613,268)	$ 77,581	$ 44,313
John W. Barnard	2021	$ 400,000	$ 150,000	$ –	$ 94,433	$ 28,290	$ 672,723
6	2023	$ 1,139,818	$ 193,655	$ 71,420	$ 339,691	$ 143,840	$ 1,888,424
8	2022	$ 1,648,481	$ 553,778	$ –	$ (892,379)	$ 194,664	$ 1,504,544
8	2021	$ 1,485,092	$ 474,694	$ –	$ 430,873	$ 174,274	$ 2,564,933

* *The Perquisites/Other amount disclosed in the above chart may include club memberships, automobile and travel allowance, deferred compensation, life insurance, 401(k) contributions, and relocation reimbursement.*

For the Retirement Plan, the present value of pension benefits is the value at a specific date of the benefit payment stream an individual is expected to receive upon retirement based on pay and service earned to date. These present values change year over year as (1) pension benefits increase due to an additional year of pay and service being earned under the benefit formula, (2) individuals are one year closer to receiving payments, and (3) the assumptions used to determine the present value change.

The present value of Retirement Plan pension benefits will naturally increase as the benefits earned under the plan increase. Since the pension benefit formula is dependent on base pay, pay increases directly impact the pension values.

The present values are calculated by discounting each expected future benefit payment back to the determination date at a specified interest (or discount) rate. When a year passes, there is one fewer year of discounting, which increases the present value.

Finally, the present value of the expected future benefit payment stream is based on actuarial assumptions, chiefly the discount rate mentioned above. 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 discount rate is updated every year based on the interest rate environment at December 31. A decrease in the discount rate (i.e. less discounting) increases the present values and vice versa. There was a decrease in the discount rate assumption from December 31, 2022 to December 31, 2023, causing the pension values to increase.

Other actuarial assumptions are updated periodically. The most recent mortality improvement scale from the Society of Actuaries is MP-2021, which continues to be used. The scale is typically updated yearly, but the Society of Actuaries chose to forgo an update in 2022 and 2023 due to COVID-19 skewing mortality data.

Pension Benefits Table
As of December 31, 2023

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2023
CEO:					
Gines Pérez, III	2023	First South Retirement Plan	–	$ –	$ –
				$ –	$ –
Senior Officers and Highly Compensated Employees:					
6 Officers	2023	First South Retirement Plan	33.88*	$ 2,087,538	$ –
				$ 2,087,538	$ –

**Represents the average years of credited service for the group*

In addition to base compensation, the Association offers a Business Incentive Plan to all eligible employees, not including the CEO. The Business Incentive Plan is designed to motivate employees to exceed the business plan goals established by the Board of Directors during the fiscal year. These goals are met and exceeded in three key business areas. Those key areas include return on average daily balance of loans (ROADB), credit quality and growth in average daily balance (ADB). No employee shall receive more than 25 percent of his or her individual base salary in the Business Incentive Plan.

The Association also provides an Executive Incentive Plan for all eligible senior officers, not including the CEO. The Executive Incentive Plan is designed to motivate and reward the senior officers to meet and exceed the financial and performance goals of the Association. The financial and performance goals for this plan are return on average daily balance of loans (ROADB) and operating efficiency in his or her respective area of responsibility. These performance areas are weighted equally. No senior officer shall receive more than 15 percent of his or her individual base salary in the Executive Incentive Plan. A portion of the executive incentive earned each year is deferred to future years.

The level of incentive paid to the CEO, if any, is approved by the Board of Directors upon recommendation from the Compensation Committee. The CEO incentive payment is based on various performance factors also designed to meet the goals and objectives set by the Board of Directors.

Incentives are paid within 45 days of the year end. The incentives/bonuses are shown in the year earned which may be different than the year of payment. Six senior officers shared in the 2023 business incentive and six senior officers shared in the executive incentive.

Disclosure of information on the total compensation paid during 2023 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Directors

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $509,047 for 2023, $249,269 for 2022 and $179,062 for 2021.

Subject to approval by the board, the Association may allow directors honorarium of $1,200 per day for attendance at regularly scheduled board meetings and auxiliary committee meetings not held in conjunction with regularly scheduled board meetings. In addition, each director shall be paid a quarterly retainer of $500 with the exception of the board chairman and audit committee chairman which will be $750 per quarter. Auxiliary meetings such as regional advisory committee meetings, political action committee meetings and other special assignments will be $600 per day and telephone conference calls will be $200. Travel compensation to regularly scheduled board meetings and auxiliary committee meetings will be $.75 per mile. Total compensation paid to directors as a group was $534,220.

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Directors are elected for three-year terms, unless completing the unexpired term of a former director.

Thomas H. Nelson, Jr., Chairman, of Glen Allan, Mississippi, farms with his family a 9,000-acre row crop operation consisting of E G Nelson, Inc.; Nelson-King Farms; Nelson-King Lands, LLC; and Everhope Plantation; producing corn and soybeans. His principal occupation is farming. Mr. Nelson is owner operator of E G Nelson, Inc., and Nelson-King Farms. He serves on the board of Washington County Farm Bureau, which supports and promotes agriculture in Washington County, Mississippi, and has served as chairman of the Board of Trustees of Avon United Methodist Church, a religious organization, for 10 years. Mr. Nelson has been a member of First South for over 33 years. His present term as a First South Director expires in 2026.

Robert Dale Thibodeaux, Vice Chairman, of Midland, Louisiana, is a farmer. He has a farming operation with his family consisting of 10,900 acres, including 5,500 acres of rice, 3,200 acres of soybeans, and 2,200 acres of crawfish. His business interests include Thibodeaux Ag Group, a farming entity; Thibodeaux Bros. Farm, a custom farming and equipment leasing company; Thibodeaux Crawfish, LLC, a member of Acadia Processors; and Krewe du Meanger, a social club. Mr. Thibodeaux is Secretary and Treasurer for Thibodeaux Bros. Dryer, a grain drying operation; Thibodeaux Bros. Water, a land company; Thibodeaux Bros. Trucking, a grain trucking operation; and Thibodeaux Land Company. He is a partner in Acadia Processors, a crawfish processing plant. Mr. Thibodeaux serves as a board member of Acadia Soil and Water District, which implements conservation practices, and Acadia 5th Ward Port Board, which manages businesses on port property. He is a member of Southwest Farm Cooperative, an ag supplier; Acadia Rice Growers Association, a rice growers' group; and South Louisiana Rail Facility, an entity that markets and ships rice. Mr. Thibodeaux has been a member of First South for over 43 years. His present term as a First South Director expires in 2026.

Adam W. Bass, of Columbia, Mississippi, is a poultry and cattle farmer. He has an 8-house poultry farm; a cow/calf operation, consisting of approximately 120 brood cows; and a hay production operation. He is owner/manager of Back Forty Farms, LLC. Mr. Bass has been a member of First South for over 15 years. His present term as a First South Director expires in 2025.

Barry A. DeFoor, of Falkville, Alabama, is a farmer. He has a diversified farming operation consisting of pasture, hay, and timber. He owns 2 four-house poultry farms, a cow/calf operation, and produces approximately 500 rolls of hay annually. Mr. DeFoor serves as a director for the Morgan County Farmers Federation, an agricultural advocacy organization. He also serves as a member of the AgFirst Legislative Advisory Committee, a Farm Credit advocacy organization. Mr. DeFoor has been a member of First South for over 17 years and served as a member of the Regional Advisory and Nominating Committees until he was elected to the First South Board of Directors in 2020. His present term on the First South Board expires in 2025.

Amy C. Ellender, of Mer Rouge, Louisiana, serves as an outside director, and is not a member of the Association. She is an attorney and owner of Ellender Law Firm, APLC, a law firm. She is the financial manager and office manager of her family's 7,000-acre farming operation, Clark Farms, consisting of corn, soybeans, rice, and cotton. Mrs. Ellender is owner of Ellender Properties, LLC, a real estate holding entity; and a member of the Board of Trustees of Christian Life Fellowship, Inc., a nonprofit Christian summer camp and retreat facility. Her present term as a First South Director expires in 2025.

Dr. Marty J. Fuller, of Starkville, Mississippi, a consultant, serves as an outside director, and is not a member of the Association. He is CEO of Federal Solutions, LLC, a firm specializing in governmental relations. Dr. Fuller also serves as senior consultant at Cornerstone Government Affairs, a Washington, D.C. based government/public relations firm. His present term as a First South Director expires in 2026.

Richard T. Hargis, of Effie, Louisiana, is a full-time farmer. His farming operations, Hargis Farm Partnership, LLC and Gen Three Farms, LLC, consist of 5,150 acres of row crops, including soybeans, corn, and grain sorghum. Mr. Hargis is owner of High Cotton Cattle, LLC, a row crop and cattle operation which includes 200 Braford cows. He also is owner of HFP Trucking, LLC, a trucking company. His present term as First South Director expires in 2024.

Mitchell H. Henry, of Moulton Alabama, is a farmer. He owns and manages Hardin Farms, LLC, a farming operation. He markets 1,000 head of stockers annually and maintains 40 head of brood cows. Mr. Henry also harvests hay for the public. He is vice president of Lawrence County Farmers Federation Board, which supports and promotes agriculture and politics. He also serves as the Chairman of the State Young Farmers for the Alabama Farmers Federation. Mr. Henry was elected to the First South Board of Directors in 2023 and his present term expires in 2026.

Conner V. House, of Natchez, Mississippi, is a forester and co-owner of Good Hope, Inc., where he serves as vice president and secretary/treasurer. He is a member of Geronimo Hardwood Timber, LLC, a land and timber purchasing entity that leases farmland to operators and actively manages tree farm acreage; and Cottonport Hardwoods, LLC, a barge company for timber harvesting. Mr. House is secretary of America Plan & Build Corp., a real estate investment entity, and president of Miss-Lou Timber Merchandising, Inc., a timber merchandising entity. His present term as a First South Director expires in 2026.

John G. Ingraffia, of Husser, Louisiana, is a retired dairy farmer in hay production. He was owner/operator of a dairy farm for over 40 years before retiring in September 2023. He has 200 acres used for hay production. Mr. Ingraffia serves on the Tangipahoa Parish Council, a local government entity. He is also a member of the Tangipahoa Parish Consolidated Drainage Board, a local government entity for the drainage district; and the Tangipahoa Parish Rural Fire Protection District 2 Board, a volunteer fire department. Mr. Ingraffia, a former member of the Regional Advisory Committee, has been a member of First South for over 39 years. His present term as a First South Director expires in 2024.

Wilson E. Judice, of Franklin, Louisiana, is a research agronomist with the American Sugar Cane League, a trade organization. He owns and operates Wilson Judice Farms, a small vegetable farm that is in the development stages of producing fresh market vegetables and vegetable plants. He is also owner of Bayou Teche Family Farm. He serves his community as a member of the St. Mary Parish Fire Protection District 2 Board of Directors, a volunteer fire department. Mr. Judice has been a member of First South for over 12 years. His present term as a First South Director expires in 2024.

J. Kevin Kimzey, of Water Valley, Mississippi, is a farmer. He is owner and operator of Kevin Kimzey Farms, a 3,000-acre family farm consisting of cotton, corn, and soybeans. His family also owns 600 acres of pine and hardwood timber. Mr. Kimzey is a stockholder in Yalobusha Gin Company, a cotton ginning entity. He is a member of Staplcotn and ProCot, cotton marketing cooperatives. He is commissioner for Yalobusha Soil and Water, an entity that implements conservation programs. Mr. Kimzey has been a member of First South for over 30 years. His present term as a First South Director expires in 2026.

W. Townsend Kyser, III, of Greensboro, Alabama, is a catfish farmer. He is chief financial officer of Kyser Family Farms, LLC, a catfish and cattle operation of approximately 4,000 acres. Mr. Kyser is also a member of Kyser, LLC and Kyser Farms, LLC, both farming entities. He is the president of Hale County Alabama Farmers Federation (ALFA), an advocacy organization. Mr. Kyser serves on the Executive Committee of Catfish Farmers of America, a farming organization representing the catfish industry; and on the Alabama USDA Farm Service Agency (FSA) state committee, an entity implementing federal farm programs. He also serves as a director of Black Warrior Electric, a rural electric cooperative. His present term as a First South Director expires in 2026.

George G. LaCour, Jr., of Morganza, Louisiana, is a farmer. He is the general manager of GNG Farm Partnership, a 6,000-acre family farming operation consisting of corn, cotton, soybeans, sugarcane, rice, wheat, and crawfish. He is a managing partner of GNL Farm, LLC, farming sugarcane and soybeans. Mr. LaCour is manager of Madison Farmland, LLC, a real estate entity; Delta Farmland, LLC, a real estate entity; Bessie Land Company, LLC, a farm real estate company; Edgar LaCour Land Company, LLC, a family agriculture land company; and Perkins Road Express Wash, LLC, a car wash entity. He is vice chairman of Tri-Parish, LLC, a cotton gin. He is president of Bouanchaud Farms, Inc.; Gilmer Farms, Inc.; Schwab Farm, Inc., all farming and land holding entities; and Pointe Coupee Farmers Cooperative, a farm retail entity. Mr. LaCour serves as director of G & M Farms, Inc., a farming entity; Staplcotn Cooperative Association, a cotton marketing cooperative; Louisiana Rural Electric Association, Inc., a trade organization; American Sugar Cane League of the U.S.A., Inc., a sugar advocacy organization; Superior Land Management, a land management company; and Pointe Coupee Electric Membership Corporation, an electric cooperative where he serves as vice president. Mr. LaCour is a director of Sugar, LLC, a co-op marketing sugar. He is a member of LaCour & Blake, LLC; Milam Acres, LLC; and Laser-Bucket, LLC, farm and land holding entities. He also serves as a committee member on the Pointe Coupee FSA County Committee, a federal government entity that advises on implementation of federal farm programs. Mr. LaCour served as a member of the First South Regional Advisory Committee until he was elected to the First South Board of Directors in 2023. His present term as First South Director expires in 2026.

Ray L. Makamson, of Itta Bena, Mississippi, is a farmer and cotton ginner. He is president of Greenwood Gin, Inc., a cotton gin. Mr. Makamson has been a member of First South for over 51 years. His present term as a First South Director expires in 2024.

S. Alan Marsh, of Madison, Alabama, is a farmer. He is president of Marsh Farms, a 2,950-acre farming operation consisting of cotton, soybeans, wheat, and corn. Mr. Marsh is the president of South Limestone Coop Gin, a cotton gin, and a director of Limestone County Farmers Federation, an agricultural advocacy organization. He is also a member of Staplcotn, a cotton marketing cooperative. Mr. Marsh has been a member of First South for over 48 years. His present term as a First South Director expires in 2026.

James F. Martin, III, of Enterprise, Alabama, is a member of James Martin Farms, LLC, a row crop operation consisting of peanuts, cotton, soybeans, and corn. His principal occupation is row crop production. He is also a member of Nitram, LLC, a land acquisition and sales company. Mr. Martin serves on the board of ALFA Coffee County, an agricultural advocacy organization, and Covington Electric Cooperative, an electrical cooperative. He is a stockholder in Coffee Gin Company, a cotton gin, and participates in land transactions with Enterprise Land and Homes, LLC, and Keyton Crossing, LLC. Mr. Martin has been a member of First South for over 32 years. His present term as a First South Director expires in 2025.

Daniel C. Mattingly, of Belle Rose, Louisiana, is the Agricultural Manager for Lula-Westfield, LLC, owners and operators of two raw sugar mills. He is also director of the Land Committee at Savoie Industries, LLC. Mr. Mattingly manages the maintenance of the land holdings of these two companies comprised of 40,000 acres, including sugarcane production land, timber property, pastureland, and hunting land. Mr. Mattingly serves on the board of Assumption Parish Farm Bureau, an agricultural advocacy organization. He has been a member of First South for over 26 years. His present term as a First South Director expires in 2025.

R. Shepherd Morris, of Shorter, Alabama, is a full-time row crop farmer. He is president of Morris and Morris Farms, a 4,200-acre row crop operation consisting of cotton, corn, and sesame; and an 800-acre timber operation. He serves as vice chairman of Choice Cotton Company, a cotton marketing organization, and director of River Bank and Trust, a community bank. He is president of Milstead Farm Group, Inc., a cotton ginning operation, and Macon County Farmers Federation, an agricultural policy organization. Mr. Morris has been a member of First South for over 45 years. His present term as a First South Director expires in 2024.

Thomas A. Parker, of Lake Providence, Louisiana, is a farmer. He has a 5,500-acre farming operation in Louisiana and a 7,500-acre farming operation in Arkansas, consisting of cotton, corn, rice, and soybeans. He owns Deep Current Ag Management, a farm management company; and is a managing member of Hollybrook Gin, a cotton ginning operation. Mr. Parker serves as chairman of the Staplcotn Board, a cotton marketing entity. He is president of Bunches Bend Protection District, a Louisiana governor appointed commission as well as a board member of Farm Bureau, an agricultural advocacy organization. He is a producer delegate for the National Cotton Council and is on the executive committee of Louisiana Cotton and Grain. Mr. Parker has been a member of First South for over 34 years. His present term as a First South Director expires in 2025.

Michael W. Patrick, of Canton, Mississippi, is a farmer. He is a partner in Patrick Farms Joint Venture, a farming operation consisting of cotton, corn, soybeans, and timber. He serves on the Madison County USDA/FSA committee, a federal government entity that advises on implementation of federal farm programs. He is commissioner on the Madison County Soil and Water District Board, a county entity advising on drainage and conservation in Madison County. Mr. Patrick serves on the Board of Directors of AgFirst Farm Credit Bank, a Farm Credit Bank. He has been a member of First South for over 33 years. His present term as a First South Director expires in 2024.

Walter Rodney Richardson, of Leroy, Alabama, is a farmer. He is a partner in Richardson Farms, a row crop operation consisting of 4,000 acres of corn, soybeans, and peanuts. Mr. Richardson is a director of the Washington County Farmers Federation, an agricultural policy organization, and of Frisco City Farmers Cooperative, a farm retail entity. He has been a member of First South for over 43 years. His present term as a First South Director expires in 2024.

Roy M. Tucker, Jr., of Hamilton, Mississippi, is a row crop farmer. He is a partner in Tucker Farming Company, a row crop operation in Chickasaw and Monroe counties, Mississippi, consisting of 3,200 + acres of cotton, corn, and soybeans. Mr. Tucker is president of Tucker Farms, Inc., a farming entity, and chairman of Farmers Gin, Inc., a cotton gin, in Hamilton, Mississippi. He is also a member of the Mississippi Boll Weevil Eradication Board, an implementation and eradication entity. Mr. Tucker was elected to the First South Board of Directors in 2022 and his term expires in 2025.

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

		Term of Office		Number of Days Served		Compensation		
Name of Director	Committee Assignments	Election Year	Current Term Expiration	Board Meetings	Other Official Activities*	Compensation Regular Board Meetings	Compensation for Other Activities	Total 2023 Compensation Paid
Thomas H. Nelson, Jr., Chairman	Retirement, Executive	2023	2026	9	16	$ 13,928	$ 15,453	$ 29,381
Robert Dale Thibodeaux, Vice Chairman	Audit, Compensation, Retirement, Executive	2023	2026	7	21	12,919	16,012	28,931
Dr. Marty J. Fuller	Audit, Executive	2023	2026	6	9	9,238	5,200	14,438
Amy C. Ellender	Audit, Compensation	2022	2025	9	15	14,946	11,528	26,474
Adam W. Bass	Credit	2022	2025	8	8	12,453	8,092	20,545
Paul S. Clark	Audit, Retirement, Executive	2020	2023**	1	6	1,665	2,868	4,533
Barry A. DeFoor	Governance, Compensation	2022	2025	9	16	15,550	14,178	29,728
Richard T. Hargis	Governance	2021	2024	9	10	15,548	8,529	24,077
Mitchell H. Henry	Credit	2023	2026	7	1	12,088	1,600	13,688
Conner V. House	Credit	2023	2026	8	12	11,940	11,167	23,107
John G. Ingraffia	Credit	2021	2024	8	7	13,679	7,222	20,901
Wilson E. Judice	Audit	2021	2024	8	8	14,131	5,602	19,733
J. Kevin Kimsey	Credit	2023	2026	6	1	6,908	2,782	9,690
W. Townsend Kyser, III	Audit	2023	2026	9	14	14,403	10,913	25,316
George G. LaCour, Jr.	Credit	2023	2026	6	4	10,749	4,000	14,749
Ray L. Makamson	Governance	2021	2024	9	9	14,706	8,286	22,992
S. Alan Marsh	Credit, Retirement, Executive	2023	2026	9	12	14,214	9,509	23,723
James F. Martin, III	Governance, Retirement, Executive	2022	2025	9	22	16,932	15,964	32,896
Daniel C. Mattingly	Credit, Compensation, Retirement	2022	2025	7	15	12,021	12,358	24,379
R. Shepherd Morris	Governance, Compensation, Executive	2021	2024	9	18	15,188	13,505	28,693
James M. Norsworthy, III	Audit, Retirement	2020	2023**	2	3	2,880	2,400	5,280
Thomas A. Parker	Governance, Compensation, Executive	2022	2025	8	14	12,407	13,064	25,471
Michael W. Patrick	Audit, Retirement, Executive	2021	2024	8	9	10,517	5,630	16,147
Walter Rodney Richardson	Governance, Compensation	2021	2024	9	16	14,344	15,382	29,726
Roy M. Tucker, Jr.	Credit	2022	2025	9	4	14,947	4,675	19,622
Total						$ 308,301	$ 225,919	$ 534,220

** Includes board committee meetings and other board activities other than regular board meetings*
*** Due to age limitation, Mr. Paul S. Clark and Mr. James M. Norsworthy were not eligible for re-election*

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 of the Consolidated Financial Statements, "Related Party Transactions," included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

There were no changes in or material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period. Aggregate fees paid by the Association for services rendered by its independent auditors for the year ended December 31, 2023 were as follows:

	2023
Independent Auditors	
PricewaterhouseCoopers LLP	
Audit services	$ 112,780

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

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 7, 2024 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's unaudited quarterly reports are available upon request free of charge by calling 1-800-955-1722, or writing to Sarah Lutz, First South Farm Credit, ACA, Three Paragon Centre, Suite 100, 574 Highland Colony Parkway, Ridgeland, MS 39157. Information concerning First South Farm Credit, ACA can be obtained by visiting the association website, www.firstsouthland.com. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report 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 First South 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 approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 2023, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance).* The Committee discussed with PwC its independence from the Association. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

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

Marty J. Fuller

Dr. Marty J. Fuller
Chairman of the Audit Committee

Members of Audit Committee

Amy C. Ellender
Wilson E. Judice
W. Townsend Kyser, III
Robert Dale Thibodeaux
Michael W. Patrick

March 7, 2024

Report of Independent Auditors

To the Management and Board of Directors of First South Farm Credit, ACA

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

Other Information

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

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

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 7, 2024

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2023	2022	2021
Assets			
Cash	**$ 120**	$ 125	$ 206
Loans	**3,030,634**	2,935,532	2,773,183
Allowance for loan losses	**(13,956)**	(20,622)	(19,664)
Net loans	**3,016,678**	2,914,910	2,753,519
Accrued interest receivable	**31,892**	26,107	20,743
Equity investments in other Farm Credit institutions	**91,987**	79,041	65,475
Premises and equipment, net	**19,147**	18,251	13,876
Other property owned	**507**	35	406
Accounts receivable	**27,596**	22,179	45,963
Other assets	**1,015**	1,224	1,252
Total assets	**$ 3,188,942**	$ 3,061,872	$ 2,901,440
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 2,495,740**	$ 2,411,438	$ 2,293,490
Accrued interest payable	**7,994**	6,329	4,464
Patronage refunds payable	**33,126**	21,048	26,239
Accounts payable	**6,742**	7,024	4,734
Other liabilities	**18,486**	25,344	29,559
Total liabilities	**2,562,088**	2,471,183	2,358,486
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**52,873**	52,613	53,098
Retained earnings			
Allocated	**256,357**	256,357	256,357
Unallocated	**324,634**	294,889	248,756
Accumulated other comprehensive income (loss)	**(7,010)**	(13,170)	(15,257)
Total members' equity	**626,854**	590,689	542,954
Total liabilities and members' equity	**$ 3,188,942**	$ 3,061,872	$ 2,901,440

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2023	2022	2021
Interest Income			
Loans	**$ 158,294**	$ 134,333	$ 114,543
Interest Expense	**83,143**	63,402	49,126
Net interest income	**75,151**	70,931	65,417
Provision for credit losses	**538**	1,000	2,640
Net interest income after provision for credit losses	**74,613**	69,931	62,777
Noninterest Income			
Loan fees	**3,050**	3,640	4,692
Fees for financially related services	**1,802**	1,717	1,136
Patronage refunds from other Farm Credit institutions	**26,732**	35,243	45,904
Gains (losses) on sales of premises and equipment, net	**824**	518	586
Other noninterest income	**49**	75	—
Total noninterest income	**32,457**	41,193	52,318
Noninterest Expense			
Salaries and employee benefits	**29,465**	30,590	30,221
Occupancy and equipment	**2,197**	2,203	1,943
Insurance Fund premiums	**4,157**	4,530	3,220
Purchased services	**653**	1,259	955
Data processing	**447**	448	447
Other operating expenses	**9,576**	5,146	6,559
(Gains) losses on other property owned, net	**(5)**	(180)	(209)
Total noninterest expense	**46,490**	43,996	43,136
Income before income taxes	**60,580**	67,128	71,959
Provision for income taxes	**1**	37	15
Net income	**$ 60,579**	$ 67,091	$ 71,944
Other comprehensive income net of tax			
Employee benefit plans adjustments	**6,160**	2,087	15,133
Comprehensive income	**$ 66,739**	$ 69,178	$ 87,077

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	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 52,326	$ 256,357	$ 203,004	$ (30,390)	$ 481,297
Comprehensive income			71,944	15,133	87,077
Capital stock/participation certificates issued/(retired), net	772				772
Patronage distribution					
Cash			(26,192)		(26,192)
Balance at December 31, 2021	$ 53,098	$ 256,357	$ 248,756	$ (15,257)	$ 542,954
Comprehensive income			67,091	2,087	69,178
Capital stock/participation certificates issued/(retired), net	(485)				(485)
Patronage distribution					
Cash			(21,000)		(21,000)
Patronage distribution adjustment			42		42
Balance at December 31, 2022	$ 52,613	$ 256,357	$ 294,889	$ (13,170)	$ 590,689
Cumulative effect of change in accounting principle			**5,570**		**5,570**
Comprehensive income			**60,579**	**6,160**	**66,739**
Capital stock/participation certificates issued/(retired), net	**260**				**260**
Patronage distribution					
Cash			**(32,946)**		**(32,946)**
Patronage distribution adjustment			**(3,458)**		**(3,458)**
Balance at December 31, 2023	**$ 52,873**	**$ 256,357**	**$ 324,634**	**$ (7,010)**	**$ 626,854**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2023	2022	2021
Cash flows from operating activities:			
Net income	**$ 60,579**	$ 67,091	$ 71,944
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,411**	1,285	1,247
Amortization (accretion) of net deferred loan costs (fees)	**(423)**	(340)	180
Provision for credit losses	**538**	1,000	2,640
(Gains) losses on other property owned	**(5)**	(196)	(201)
(Gains) losses on sales of premises and equipment, net	**(824)**	(518)	(586)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(688)**	(1,702)	(2,372)
Proceeds from sales of loans held for sale, net	**688**	1,702	2,372
(Increase) decrease in accrued interest receivable	**(5,785)**	(5,364)	75
(Increase) decrease in accounts receivable	**(5,417)**	23,784	(7,956)
(Increase) decrease in other assets	**209**	28	225
Increase (decrease) in accrued interest payable	**1,665**	1,865	452
Increase (decrease) in accounts payable	**(282)**	2,290	764
Increase (decrease) in other liabilities	**(1,300)**	(2,128)	(296)
Total adjustments	**(10,213)**	21,706	(3,456)
Net cash provided by (used in) operating activities	**50,366**	88,797	68,488
Cash flows from investing activities:			
Net (increase) decrease in loans	**(96,183)**	(162,051)	(361,905)
(Increase) decrease in equity investments in other Farm Credit institutions	**(12,946)**	(13,566)	1,219
Purchases of premises and equipment	**(2,307)**	(5,717)	(1,276)
Proceeds from sales of premises and equipment	**824**	575	741
Proceeds from sales of other property owned	**5**	567	2,967
Net cash provided by (used in) investing activities	**(110,607)**	(180,192)	(358,254)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**84,302**	117,948	310,112
Capital stock and participation certificates issued/(retired), net	**260**	(485)	772
Patronage refunds and dividends paid	**(24,326)**	(26,149)	(21,151)
Net cash provided by (used in) financing activities	**60,236**	91,314	289,733
Net increase (decrease) in cash	**(5)**	(81)	(33)
Cash, beginning of period	**125**	206	239
Cash, end of period	**$ 120**	$ 125	$ 206
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ 472**	$ —	$ 665
Estimated cash dividends or patronage distributions declared or payable	**32,946**	21,000	26,192
Cumulative effect of change in accounting principle	**5,570**	—	—
Employee benefit plans adjustments (Note 9)	**(6,160)**	(2,087)	(15,133)
Supplemental information:			
Interest paid	**$ 81,478**	$ 61,537	$ 48,674
Taxes (refunded) paid, net	**13**	31	—

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:** First South Farm Credit, ACA (the Association or ACA) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in all counties in the states of Alabama and Mississippi, and all but certain parishes within the northwestern portion of Louisiana. The counties and parishes in the respective states are as follows:

Alabama: Autauga, Baldwin, Barbour, Bibb, Blount, Bullock, Butler, Calhoun, Chambers, Cherokee, Chilton, Choctaw, Clarke, Clay, Cleburne, Coffee, Colbert, Conecuh, Coosa, Covington, Crenshaw, Cullman, Dale, Dallas, De Kalb, Elmore, Escambia, Etowah, Fayette, Franklin, Geneva, Greene, Hale, Henry, Houston, Jackson, Jefferson, Lamar, Lauderdale, Lawrence, Lee, Limestone, Lowndes, Macon, Madison, Marengo, Marion, Marshall, Mobile, Monroe, Montgomery, Morgan, Perry, Pickens, Pike, Randolph, Russell, St. Clair, Shelby, Sumter, Talladega, Tallapoosa, Tuscaloosa, Walker, Washington, Wilcox and Winston.

Mississippi: Adams, Alcorn, Amite, Attala, Benton, Bolivar, Calhoun, Carroll, Chickasaw, Choctaw, Claiborne, Clarke, Clay, Coahoma, Copiah, Covington, Desoto, Forrest, Franklin, George, Greene, Grenada, Hancock, Harrison, Hinds, Holmes, Humphreys, Issaquena, Itawamba, Jackson, Jasper, Jefferson, Jefferson Davis, Jones, Kemper, Lafayette, Lamar, Lauderdale, Lawrence, Leake, Lee, Leflore, Lincoln, Lowndes, Madison, Marion, Marshall, Monroe, Montgomery, Neshoba, Newton, Noxubee, Oktibbeha, Panola, Pearl River, Perry, Pike, Pontotoc, Prentiss, Quitman, Rankin, Scott, Sharkey, Simpson, Smith, Stone, Sunflower, Tallahatchie, Tate, Tippah, Tishomingo, Tunica, Union, Walthall, Warren, Washington, Wayne, Webster, Wilkinson, Winston, Yalobusha and Yazoo.

Louisiana: Acadia, Allen, Ascension, Assumption, Avoyelles, Beauregard, Calcasieu, Caldwell, Cameron, Catahoula, Concordia, East Baton Rouge, East Carroll, East Feliciana, Evangeline, Franklin, Grant, Iberia, Iberville, Jefferson, Jefferson Davis, La Salle, Lafayette, Lafourche, Livingston, Madison, Morehouse, Natchitoches, Orleans, Ouachita (parts), Plaquemines, Pointe Coupee, Rapides, Richland, Sabine, St. Bernard, St. Charles, St. Helena, St. James, St. John The Baptist, St. Landry, St. Martin, St. Mary, St. Tammany, Tangipahoa, Tensas, Terrebonne, Vermilion, Vernon, Washington, West Baton Rouge, West Carroll, West Feliciana and Winn.

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

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

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

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

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for loan losses	$ 20,622	$ (5,930)	$ 14,692
Liabilities:			
Allowance for credit losses on unfunded commitments	$ –	$ 360	$ 360
Retained earnings:			
Unallocated retained earnings	$ 294,889	$ 5,570	$ 300,459

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

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

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

Nonaccrual Loans

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

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

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

Accrued Interest Receivable

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral Dependent Loans

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

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

- the allowance for loan losses
- the allowance for unfunded commitments, which is presented on the Consolidated Balance Sheets in Other Liabilities, and
- the allowance for credit losses on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Consolidated Balance Sheets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

I. **Employee Benefit Plans:** The Association employees may participate in Association, District and/or 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.

Single Employer Defined Benefit Plan
Certain employees depending on date of employment may participate in the First South Farm Credit, ACA Retirement Plan (the First South Plan), a defined benefit plan. The First South Plan is noncontributory and includes eligible Association employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. Since the First South Plan is a single employer plan, the Association records the First South Plan's funded status and equity items related to prior service cost, accumulated other comprehensive income (loss) and prepaid (accrued) pension expense. The adjustment to other comprehensive income (loss) would be net of deferred taxes, if significant.

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

Additional information may be found in Note 9.

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

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.

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

Additional information may be found in Note 9.

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

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

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

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

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

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

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

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

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

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation.

Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing.

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

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

Additional information may be found in Note 8.

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

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

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

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

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

Contracts with Customers
The Association may maintain 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 does not generally incur costs to obtain contracts. Revenue is recognized to reflect the transfer of goods and services to customers in an amount equal to the consideration the Association receives or expects to receive.

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

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Credit Losses

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31,		
	2023	2022	2021
Real estate mortgage	$ 2,390,611	$ 2,359,912	$ 2,222,461
Production and intermediate-term	461,291	424,215	410,542
Agribusiness:			
Loans to cooperatives	5,421	5,564	8,553
Processing and marketing	90,353	88,401	83,720
Farm-related business	32,459	23,992	24,026
Rural infrastructure:			
Communication	10,274	10,377	6,253
Power and water/waste disposal	19,298	3,420	–
Rural residential real estate	20,927	19,651	17,628
Total loans	$ 3,030,634	$ 2,935,532	$ 2,773,183

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

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

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

	December 31, 2023							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 11,840	$ 7,952	$ –	$ –	$ 6,764	$ –	$ 18,604	$ 7,952
Production and intermediate-term	10,601	761,036	96	–	135	–	10,832	761,036
Agribusiness	51,690	22,853	40	–	16,547	–	68,277	22,853
Rural infrastructure	25,715	–	3,950	–	–	–	29,665	–
Rural residential real estate	–	–	–	–	34	–	34	–
Total	$ 99,846	$ 791,841	$ 4,086	$ –	$ 23,480	$ –	$ 127,412	$ 791,841

	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	$ 12,600	$ 9,389	$ –	$ –	$ 8,257	$ –	$ 20,857	$ 9,389
Production and intermediate-term	11,043	749,851	126	–	156	–	11,325	749,851
Agribusiness	32,399	23,899	9,292	2,736	16,739	–	58,430	26,635
Rural infrastructure	13,833	–	–	–	–	–	13,833	–
Rural residential real estate	–	–	–	–	35	–	35	–
Total	$ 69,875	$ 783,139	$ 9,418	$ 2,736	$ 25,187	$ –	$ 104,480	$ 785,875

	December 31, 2021							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 12,677	$ 11,249	$ –	$ –	$ 10,667	$ –	$ 23,344	$ 11,249
Production and intermediate-term	11,263	18,204	173	–	243	–	11,679	18,204
Agribusiness	30,136	24,649	12,650	1,595	15,410	–	58,196	26,244
Rural infrastructure	6,284	–	–	–	–	–	6,284	–
Rural residential real estate	–	–	–	–	37	–	37	–
Total	$ 60,360	$ 54,102	$ 12,823	$ 1,595	$ 26,357	$ –	$ 99,540	$ 55,697

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

	December 31, 2023	2022*	2021*
Real estate mortgage:			
Acceptable	98.02%	98.19%	97.96%
OAEM	1.49	1.30	1.47
Substandard/doubtful/loss	0.49	0.51	0.57
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	94.30%	94.90%	92.22%
OAEM	4.36	3.62	5.07
Substandard/doubtful/loss	1.34	1.48	2.71
	100.00%	100.00%	100.00%
Agribusiness:			
Acceptable	94.67%	99.19%	100.00%
OAEM	4.70	0.81	–
Substandard/doubtful/loss	0.63	–	–
	100.00%	100.00%	100.00%
Rural infrastructure:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	99.09%	99.18%	98.61%
OAEM	0.37	0.18	0.61
Substandard/doubtful/loss	0.54	0.64	0.78
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	97.34%	97.77%	97.20%
OAEM	2.04	1.60	1.93
Substandard/doubtful/loss	0.62	0.63	0.87
	100.00%	100.00%	100.00%

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

Accrued interest receivable on loans of $31,892, $26,107 and $20,743 at December 31, 2023, 2022, and 2021, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

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

December 31, 2023	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 11,883	$ 1,162	$ 13,045	$ 2,377,566	$ 2,390,611
Production and intermediate-term	2,150	2,333	4,483	456,808	461,291
Agribusiness	13	814	827	127,406	128,233
Rural infrastructure	–	–	–	29,572	29,572
Rural residential real estate	18	–	18	20,909	20,927
Total	$ 14,064	$ 4,309	$ 18,373	$ 3,012,261	$ 3,030,634

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

December 31, 2022	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 7,210	$ 781	$ 7,991	$ 2,371,111	$ 2,379,102
Production and intermediate-term	1,277	272	1,549	428,491	430,040
Agribusiness	959	–	959	117,999	118,958
Rural infrastructure	–	–	–	13,803	13,803
Rural residential real estate	19	–	19	19,717	19,736
Total	$ 9,465	$ 1,053	$ 10,518	$ 2,951,121	$ 2,961,639

	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	$ 4,503	$ 1,180	$ 5,683	$ 2,232,528	$ 2,238,211
Production and intermediate-term	662	81	743	414,271	415,014
Agribusiness	–	–	–	116,747	116,747
Rural infrastructure	–	–	–	6,255	6,255
Rural residential real estate	41	–	41	17,658	17,699
Total	$ 5,206	$ 1,261	$ 6,467	$ 2,787,459	$ 2,793,926

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

	December 31, 2023
Nonaccrual loans:	
Real estate mortgage	$ 3,970
Production and intermediate-term	3,311
Agribusiness	814
Total	$ 8,095
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 8,095
Other property owned	507
Total nonperforming assets	$ 8,602
Nonaccrual loans as a percentage of total loans	0.27%
Nonperforming assets as a percentage of total loans and other property owned	0.28%
Nonperforming assets as a percentage of capital	1.37%

	December 31,	
	2022*	2021*
Nonaccrual loans:		
Real estate mortgage	$ 1,549	$ 949
Production and intermediate-term	1,812	922
Total	$ 3,361	$ 1,871
Accruing restructured loans:		
Real estate mortgage	$ –	$ 1,081
Production and intermediate-term	272	375
Total	$ 272	$ 1,456
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ 404
Production and intermediate-term	5	–
Total	$ 5	$ 404
Total nonperforming loans	$ 3,638	$ 3,731
Other property owned	35	406
Total nonperforming assets	$ 3,673	$ 4,137
Nonaccrual loans as a percentage of total loans	0.11%	0.07%
Nonperforming assets as a percentage of total loans and other property owned	0.13%	0.15%
Nonperforming assets as a percentage of capital	0.62%	0.78%

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

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

	December 31, 2023			Interest Income Recognized on Nonaccrual Loans
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Year Ended December 31, 2023
Real estate mortgage	$ 1,291	$ 2,679	$ 3,970	$ 141
Production and intermediate-term	1,583	1,728	3,311	118
Agribusiness	–	814	814	29
Total	$ 2,874	$ 5,221	$ 8,095	$ 288

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Total
Allowance for Loan Losses:						
Balance at December 31, 2022	$ 15,717	$ 4,025	$ 687	$ 73	$ 120	$ 20,622
Cumulative effect of a change in accounting principle	(2,788)	(2,665)	(347)	(63)	(67)	(5,930)
Balance at January 1, 2023	$ 12,929	$ 1,360	$ 340	$ 10	$ 53	$ 14,692
Charge-offs	(59)	(1,004)	–	–	–	(1,063)
Recoveries	19	12	–	–	–	31
Provision for loan losses	(1,781)	2,048	16	17	(4)	296
Balance at December 31, 2023	$ 11,108	$ 2,416	$ 356	$ 27	$ 49	$ 13,956
Allowance for Unfunded Commitments:						
Balance at December 31, 2022	$ –	$ –	$ –	$ –	$ –	$ –
Cumulative effect of a change in accounting principle	127	120	113	–	–	360
Balance at January 1, 2023	$ 127	$ 120	$ 113	$ –	$ –	$ 360
Provision for unfunded commitments	263	2	(23)	–	–	242
Balance at December 31, 2023	$ 390	$ 122	$ 90	$ –	$ –	$ 602
Total allowance for credit losses	$ 11,498	$ 2,538	$ 446	$ 27	$ 49	$ 14,558
Allowance for Loan Losses*:						
Balance at December 31, 2021	$ 15,138	$ 3,650	$ 719	$ 38	$ 119	$ 19,664
Charge-offs	(47)	(123)	–	–	–	(170)
Recoveries	–	128	–	–	–	128
Provision for loan losses	626	370	(32)	35	1	1,000
Balance at December 31, 2022	$ 15,717	$ 4,025	$ 687	$ 73	$ 120	$ 20,622
Balance at December 31, 2020	$ 13,028	$ 3,727	$ 662	$ 17	$ 97	$ 17,531
Charge-offs	(494)	(53)	–	–	–	(547)
Recoveries	4	36	–	–	–	40
Provision for loan losses	2,600	(60)	57	21	22	2,640
Balance at December 31, 2021	$ 15,138	$ 3,650	$ 719	$ 38	$ 119	$ 19,664

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

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

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

Troubled Debt Restructurings

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

The following table presents additional information regarding troubled debt restructurings that occurred during the period. There were no new TDRs that occurred during the year ended December 31, 2021.

	Year Ended December 31, 2022				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 231	$ –	$ 231	
Total	$ –	$ 231	$ –	$ 231	
Post-modification:					
Production and intermediate-term	$ –	$ 231	$ –	$ 231	$ –
Total	$ –	$ 231	$ –	$ 231	$ –

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 years ended December 31, 2022 and 2021. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs		Nonaccrual TDRs	
	December 31,		December 31,	
	2022*	2021*	2022*	2021*
Real estate mortgage	$ 23	$ 1,113	$ 23	$ 31
Production and intermediate-term	643	592	371	217
Total loans	$ 666	$ 1,705	$ 394	$ 248
Additional commitments to lend	$ –	$ –		

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

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $49,716 for 2023, $36,667 for 2022 and $22,515 for 2021. The Association owned 9.56 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled $45.0 billion and shareholders' equity totaled $1.7 billion. The Bank's earnings were $265 million for 2023. In addition, the Association had investments of $1,398 related to other Farm Credit institutions at December 31, 2023. The Bank had a reciprocal investment in the Association of $40,873 representing 8,174,623 shares of its nonvoting common stock at December 31, 2023.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2023	2022	2021
Land	$ 4,014	$ 3,730	$ 3,700
Buildings and improvements	18,717	18,352	14,276
Furniture and equipment	6,732	6,035	5,092
	29,463	28,117	23,068
Less: accumulated depreciation	10,316	9,866	9,192
Total	$ 19,147	$ 18,251	$ 13,876

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the

Association may incur a prepayment penalty in accordance with the terms of the GFA and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 6.34 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 6.24 percent for Prime-based loans, and the weighted average remaining maturities were 4.7 years and 1.2 years, respectively, at December 31, 2023. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.45 percent, and the weighted average remaining maturity was 11.4 years at December 31, 2023. The weighted average interest rate on all interest-bearing notes payable was 3.79 percent and the weighted average remaining maturity was 10.3 years at December 31, 2023. Gross notes payable consisted of approximately 12.27 percent variable rate and 87.73 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2023. Notes Payable to AgFirst Farm Credit Bank, as reflected on the Consolidated Balance Sheets, also includes a credit which reduces the notes payable balance and corresponding interest expense. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

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

B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to 2 percent of the loan, 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 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

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

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

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

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

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

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

- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average total assets less regulatory deductions to tier 1 capital.
- The URE and UREE component of the tier 1 leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average total assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement including Capital Conservation Buffer	Capital Ratios as of December 31, 2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	17.31%	16.81%	16.48%
Tier 1 Capital	6.0%	2.5%	8.5%	17.31%	16.81%	16.48%
Total Capital	8.0%	2.5%	10.5%	17.82%	17.47%	17.17%
Permanent Capital	7.0%	0.0%	7.0%	17.45%	16.97%	16.64%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	18.00%	17.41%	16.94%
URE and UREE Leverage	1.5%	0.0%	1.5%	12.15%	11.47%	12.15%

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

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

D. **Description of Equities:** The Association is authorized to issue or have outstanding Class A Nonvoting Common Stock, Class C Voting Common Stock, and Class D Preferred Stock, and nonvoting Participation Certificates. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

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

Class	Protected	Shares Outstanding Number	Aggregate Par Value
A Common/Nonvoting	No	33,539	$ 168
C Common/Voting	No	2,292,363	11,462
A Common Issued to Bank/Nonvoting	No	8,174,623	40,873
C Participation Certificates/Nonvoting	No	74,055	370
Total Capital Stock and Participation Certificates		10,574,580	$ 52,873

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

Surplus Accounts

The Association maintains an unallocated surplus account and an allocated surplus account. The minimum aggregate amounts of these two accounts shall be prescribed by the Farm Credit Act and the FCA regulations. The allocated surplus account consists of earnings held therein and allocated to borrowers on a patronage basis.

In the event of a net loss for any fiscal year, such loss shall be absorbed by, first, charges to the unallocated surplus account; second, impairment of paid-in surplus; and third, impairment of the allocated surplus account on the basis of latest allocations first.

The Association shall have a first lien on all surplus account allocations owned by any borrower, and all distributions thereof, as additional collateral for such borrower's indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation, the Association may, upon notice to the borrower, order any and all surplus account allocations owned by such borrower to be applied against the indebtedness. Any such retirement and application against indebtedness of surplus account allocations shall be before similar retirement and application of stock or participation certificates owned by the borrower.

When all of the stock and participation certificates of the Association owned by a borrower are retired or otherwise disposed of, any surplus account allocations owned by such borrower may also be retired upon request by the borrower and subject to the approval of the Board, and the proceeds paid to the borrower. Alternatively, if the Board so directs, upon notice to the borrower such surplus account allocations may be applied against any of the borrower's indebtedness to the Association.

Subject to the Farm Credit Act and FCA regulations, allocated surplus may be distributed in cash, oldest allocations first. The cash proceeds may be applied against the indebtedness of the borrower to the Association. In no event shall such distributions reduce the surplus account below the minimum amount prescribed by the Farm Credit Act and FCA regulations. Distributions of less than the full amount of all allocations issued as of the same date shall be on a pro rata basis.

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met.

At December 31, 2023, allocated members' equity consisted of $126,433 of nonqualified allocated surplus and $129,924 of nonqualified retained surplus.

Patronage Distributions

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

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

Transfer

Stock and participation certificates may be transferred only to persons eligible to purchase and hold such stock or participation certificates.

Impairment

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

1. Allocated Surplus
2. Class A Nonvoting Common Stock and Class C Voting Common Stock and unit of participation certificates outstanding.
3. 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 shall be distributed to the holders of stock and participation certificates in the following order of priority:

1. To the holders of Class D Preferred Stock, if any, pro rata in proportion to the number of shares then issued and outstanding until an amount equal to the aggregate par value of all such shares has been distributed to all such holders.
2. To the holders of Class A Nonvoting Common Stock and Class C Voting Common Stock and participation certificates, pro rata in proportion to the number of shares or units of each such class of stock or
3. Participation certificates then issued and outstanding until an amount equal to the aggregate par value of all such shares or units have been distributed to all such holders.
4. To the holders of allocated surplus evidenced by written notices of allocation on a pro-rata basis until all such allocated surplus has been distributed to such holders.
5. Any remaining assets of the Association after such distributions shall be distributed to the holders of Class A Nonvoting Common Stock and Class C Voting Common Stock, and participation certificates, pro rata in proportion to the number of shares or units then outstanding.

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

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

	For the Year Ended December 31,		
	2023	2022	2021
Employee Benefit Plans:			
Balance at beginning of period	$ (13,170)	$ (15,257)	$ (30,390)
Other comprehensive income before reclassifications	5,690	1,760	12,715
Amounts reclassified from AOCI	470	327	2,418
Net current period OCI	6,160	2,087	15,133
Balance at end of period	$ (7,010)	$ (13,170)	$ (15,257)

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

	For the Year Ended December 31,			
	2023	**2022**	**2021**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ (470)	$ (327)	$ (2,418)	See Note 9.
Amounts reclassified	$ (470)	$ (327)	$ (2,418)	

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

Note 8 — Fair Value Measurement

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

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

	December 31, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ –	$ –	$ –	$ –
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 1,604	$ 1,604
Other property owned	$ –	$ –	$ 588	$ 588

	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	$ –	$ –	$ 96	$ 96
Other property owned	$ –	$ –	$ 39	$ 39

	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	$ –	$ –	$ –	$ –
Other property owned	$ –	$ –	$ 448	$ 448

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

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

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

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

Substantially all employees of the Association hired before January 1, 2009 are eligible to participate in the First South Plan which is a defined benefit plan. This plan is noncontributory, and benefits are based on eligible compensation and years of service. Contributions into the First South Plan were $1,600 for 2023, $1,600 for 2022, and $2,100 for 2021. Expenses for the First South plan were $1,062 for 2023, $(1,173) for 2022, and $1,709 for 2021. Service cost is recorded in salaries and benefits and all other cost including interest costs, expected return on assets and amortization of gains and losses are recorded in other operating costs.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were $804 for 2023, $760 for 2022, and $698 for 2021. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $160,980, $167,895, and $209,599 at December 31, 2023, 2022, and 2021, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2008, 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, 2009, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $1,368, $1,339 and $1,230 for the years ended December 31, 2023, 2022, and 2021, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2008.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2023, 2022, and 2021, $6,160, $2,087 and $15,133, respectively, has been recognized as net credits to AOCI to reflect these elements.

The funding status and the amounts recognized in the Consolidated Balance Sheets of the Association at December 31, for the retirement plan follow:

	Pension Benefits		
	2023	**2022**	**2021**
Change in benefit obligation			
Benefit obligation at beginning of year	$ 101,008	$ 130,982	$ 134,385
Service cost	1,144	2,043	2,351
Interest cost	5,076	3,774	3,486
Actuarial loss (gain)	3,480	(30,382)	(4,483)
Benefits paid	(6,088)	(5,409)	(4,757)
Benefit obligation at end of year	$ 104,620	$ 101,008	$ 130,982
Change in plan assets			
Fair value of plan assets, beginning of year	$ 89,963	$ 115,078	$ 102,957
Actual return on plan assets	15,053	(21,082)	15,009
Employer contributions	1,600	1,600	2,100
Benefits paid	(6,088)	(5,409)	(4,757)
Expenses	(254)	(224)	(231)
Fair value of plan assets, end of year	$ 100,274	$ 89,963	$ 115,078
Funded status	$ (4,346)	$ (11,045)	$ (15,904)
Fourth quarter contributions	–	–	–
Net amount recognized	$ (4,346)	$ (11,045)	$ (15,904)
Amounts recognized consist of:			
Pension assets	$ –	$ –	$ –
Pension liabilities	(4,346)	(11,045)	(15,904)
Net amount recognized	$ (4,346)	$ (11,045)	$ (15,904)

The following represent the amounts included in accumulated other comprehensive income at December 31:

	2023	**2022**	**2021**
Net actuarial loss (gain)	$ 7,010	$ 13,170	$ 15,257
Prior service costs (credit)	–	–	–
Net transition obligation (asset)	–	–	–
Total amount recognized in OCI	$ 7,010	$ 13,170	$ 15,257

The accumulated benefit obligation for the defined benefit plans was $98,458, $95,336, and $120,802 at December 31, 2023, 2022 and 2021, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2023	**2022**	**2021**
Projected benefit obligation	$ 104,620	$ 101,008	$ 130,982
Accumulated benefit obligation	98,458	95,336	120,802
Fair value of plan assets	100,274	89,963	115,078

Components of net periodic benefit cost and other amounts recognized in net income for the years ended December 31 are as follows:

	Pension Benefits		
	2023	**2022**	**2021**
Net periodic benefit (income) cost			
Service cost	$ 1,144	$ 2,043	$ 2,351
Interest cost	5,076	3,774	3,486
Expected return on plan assets	(5,628)	(7,317)	(6,546)
Amortization of net (gain) loss	470	327	2,418
Amortization of prior service cost	–	–	–
Net periodic benefit (income) cost	$ 1,062	$ (1,173)	$ 1,709

Other changes in plan assets and benefit obligations recognized in other comprehensive income follows:

	2023	2022	2021
Net actuarial loss (gain)	$ (5,690)	$ (1,760)	$ (12,715)
Amortization of net actuarial loss (gain)	(470)	(327)	(2,418)
Adjustment for adoption of new accounting guidance	–	–	–
Amortization of prior service cost	–	–	–
Amortization of transition obligation (asset)	–	–	–
Total recognized in other comprehensive income	$ (6,160)	$ (2,087)	$ (15,133)
Total recognized in net periodic pension cost and other comprehensive income	$ (5,098)	$ (3,260)	$ (13,424)

The total estimated net actuarial gain, transition asset/liabilities and prior service cost for the pension plan that will be amortized into income during 2024 is $0.

Assumptions:	**2023**	**2022**	**2021**
Weighted-average assumptions used to determine benefit obligations at December 31			
Discount rate	5.00%	5.20%	2.95%
Rate of compensation increase	5.00%	5.00%	5.00%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31			
Discount rate	5.20%	2.95%	2.65%
Expected long-term return on plan assets	6.50%	6.50%	6.50%
Rate of compensation increase	5.00%	5.00%	5.00%

In 2023, 2022, and 2021, the Association used a long-term rate of return of 6.50 percent. The assumption is based on the target allocation for plan assets and capital market forecasts for the asset classes employed. Prevailing market conditions and historical results were used to determine the capital market forecasts used in this 6.50 percent return assumption for 2023.

Plan Assets

Plan assets are invested in a number of different asset classes, with each asset class further diversified through the engagement of a number of independent investment managers. This diversification across asset classes and investment managers reduces the investment risk of the plan and avoids any concentration of risk. To further ensure that excessive risk concentrations are avoided, holdings and performance of fund managers is monitored quarterly by an outside pension consulting firm and by the Association retirement committee. There were no significant concentrations of investment risk as of December 31, 2023.

Target allocation for asset categories for 2023 are as follows:	
Asset Category	
Equity securities	70%
Debt securities	30%
	100%

	Actual Plan Asset Allocation		
	2023	**2022**	**2021**
Equity Securities	70%	69%	71%
Debt Securities	28%	30%	28%
Other	2%	1%	1%
	100%	100%	100%

The fair values of the Association's pension plan assets by asset category are as follows. See Notes 2 and 8 regarding a description of the three levels of inputs and the classification within the fair value hierarchy.

	Fair Value Measurements at December 31, 2023			
	Level 1	Level 2	Level 3	Total Fair Value
Asset Category				
Cash and cash equivalents	$ 1,702	$ –	$ –	$ 1,702
Mutual funds:				
Domestic equity funds	35,001	–	–	35,001
International equity funds	–	–	–	–
Common Collective Trust:				
Fixed income fund	–	–	–	–
Fixed income securities:				
U.S. Treasuries	–	–	–	–
Corporate bonds	–	–	–	–
Mortgage-backed securities	–	–	–	–
Collateralized mortgage obligations	–	–	–	–
Foreign bonds	–	–	–	–
Common stock	1	–	–	1
Total assets in the fair value hierarchy	$ 36,704	$ –	$ –	$ 36,704
Investments measured at net asset value				63,570
Total assets at fair value				$ 100,274

	Fair Value Measurements at December 31, 2022			
	Level 1	Level 2	Level 3	Total Fair Value
Asset Category				
Cash and cash equivalents	$ 1,298	$ –	$ –	$ 1,298
Mutual funds:				
Domestic equity funds	31,722	–	–	31,722
International equity funds	–	–	–	–
Common Collective Trust:				
Fixed income fund	–	–	–	–
Fixed income securities:				
U.S. Treasuries	–	–	–	–
Corporate bonds	–	–	–	–
Mortgage-backed securities	–	–	–	–
Collateralized mortgage obligations	–	–	–	–
Foreign bonds	–	–	–	–
Common stock	1	–	–	1
Total assets in the fair value hierarchy	$ 33,021	$ –	$ –	$ 33,021
Investments measured at net asset value				56,942
Total assets at fair value				$ 89,963

	Fair Value Measurements at December 31, 2021			
	Level 1	Level 2	Level 3	Total Fair Value
Asset Category				
Cash and cash equivalents	$ 3,482	$ –	$ –	$ 3,482
Mutual funds:				
Domestic equity funds	42,434	–	–	42,434
International equity funds	–	–	–	–
Common Collective Trust:				
Fixed income fund	–	–	–	–
Fixed income securities:				
U.S. Treasuries	–	–	–	–
Corporate bonds	–	–	–	–
Mortgage-backed securities	–	–	–	–
Collateralized mortgage obligations	–	–	–	–
Foreign bonds	–	–	–	–
Common stock	1	–	–	1
Total assets in the fair value hierarchy	$ 45,917	$ –	$ –	$ 45,917
Investments measured at net asset value				69,161
Total assets at fair value				$ 115,078

Cash Flows

Contributions: The total employer contribution expected during 2024 is $1,600.

Estimated Benefit Payments: Estimated future benefit payments are as follows:

2024	$	6,886
2025	$	6,908
2026	$	7,092
2027	$	7,350
2028	$	7,466
2029-2033	$	36,995

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

In addition to the multiemployer plans described above, the Association sponsors a nonqualified supplemental 401(k) plan. The expenses of this nonqualified plan included in noninterest expenses were $11, $0, and $0 for 2023, 2022, and 2021, respectively.

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2023 amounted to $39,642. During 2023, $12,673 of new loans were made and repayments totaled $9,797. In the opinion of management, none of these loans outstanding at December 31, 2023 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending. In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2023, $480,758 of commitments to extend credit and no commercial letters of credit were outstanding. A reserve for unfunded commitments of $602 was included in Other Liabilities on the Consolidated Balance Sheets at December 31, 2023.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2023, standby letters of credit outstanding totaled $1,087 with expiration dates ranging from January 1, 2024 to August 19, 2027. The maximum potential amount of future payments that may be required under these guarantees was $1,087.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2023	2022	2021
Current:			
Federal	$ 2	$ 31	$ 13
State	(1)	6	2
	1	37	15
Deferred:			
Federal	–	–	–
State	–	–	–
Total provision (benefit) for income taxes	$ 1	$ 37	$ 15

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

	December 31,		
	2023	2022	2021
Federal tax at statutory rate	$ 12,722	$ 14,097	$ 15,111
State tax, net	(1)	6	2
Patronage distributions	(6,919)	(4,401)	(5,500)
Tax-exempt FLCA earnings	(4,395)	(9,270)	(9,539)
Change in valuation allowance	(757)	(292)	(1,091)
Change in FASB guidance, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" Liability	617	141	1,225
Other	(1,266)	(244)	(193)
Provision (benefit) for income taxes	$ 1	$ 37	$ 15

In late December 2017, federal tax legislation was enacted which, among other things, lowered the federal corporate tax rate from 35% to 21% beginning on January 1, 2018. The change to the lower corporate tax rate led to an insignificant remeasurement of the deferred tax liabilities and deferred tax assets in 2017, the period of enactment. Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2023	2022	2021
Deferred income tax assets:			
Allowance for loan losses	$ 541	$ 821	$ 809
Nonaccrual loan interest	844	733	689
Pensions and other postretirement benefits	1,677	2,296	2,704
Loan origination fees	–	76	42
Depreciation	156	136	110
Other reserves and allowances	23	–	–
Gross deferred tax assets	3,241	4,062	4,354
Less: valuation allowance	(1,303)	(2,060)	(4,354)
Gross deferred tax assets, net of valuation allowance	–	–	–
Deferred income tax liabilities:			
FLCA NQ Future Distributions	(1,388)	(1,389)	–
2022 Special Patronage	(613)	(613)	–
Loan origination fees	63	–	–
Gross deferred tax liability	(1,938)	(2,002)	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2023, deferred income taxes have not been provided by the Association on approximately $55.7 million of patronage refunds received from the Bank prior to January 1, 1993.

Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $1,303, $2,060 and $4,354 as of December 31, 2023, 2022 and 2021 respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2023 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2020 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2023				
	First	Second	Third	Fourth	Total
Net interest income	$ 18,193	$ 18,562	$ 19,693	$ 18,703	$ 75,151
Provision for (reversal of) allowance for credit losses	359	(1)	1,018	(838)	538
Noninterest income (expense), net	(4,058)	(4,007)	(3,547)	(2,422)	(14,034)
Net income	$ 13,776	$ 14,556	$ 15,128	$ 17,119	$ 60,579

	2022				
	First	Second	Third	Fourth	Total
Net interest income	$ 16,635	$ 17,410	$ 18,567	$ 18,319	$ 70,931
Provision for (reversal of) allowance for loan losses	250	750	–	–	1,000
Noninterest income (expense), net	(4,982)	(5,464)	(2,709)	10,315	(2,840)
Net income	$ 11,403	$ 11,196	$ 15,858	$ 28,634	$ 67,091

	2021				
	First	Second	Third	Fourth	Total
Net interest income	$ 15,302	$ 16,147	$ 17,200	$ 16,768	$ 65,417
Provision for (reversal of) allowance for loan losses	–	1,240	1,400	–	2,640
Noninterest income (expense), net	(5,403)	(4,645)	(4,733)	23,948	9,167
Net income	$ 9,899	$ 10,262	$ 11,067	$ 40,716	$ 71,944

Note 14 — Subsequent Events

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

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