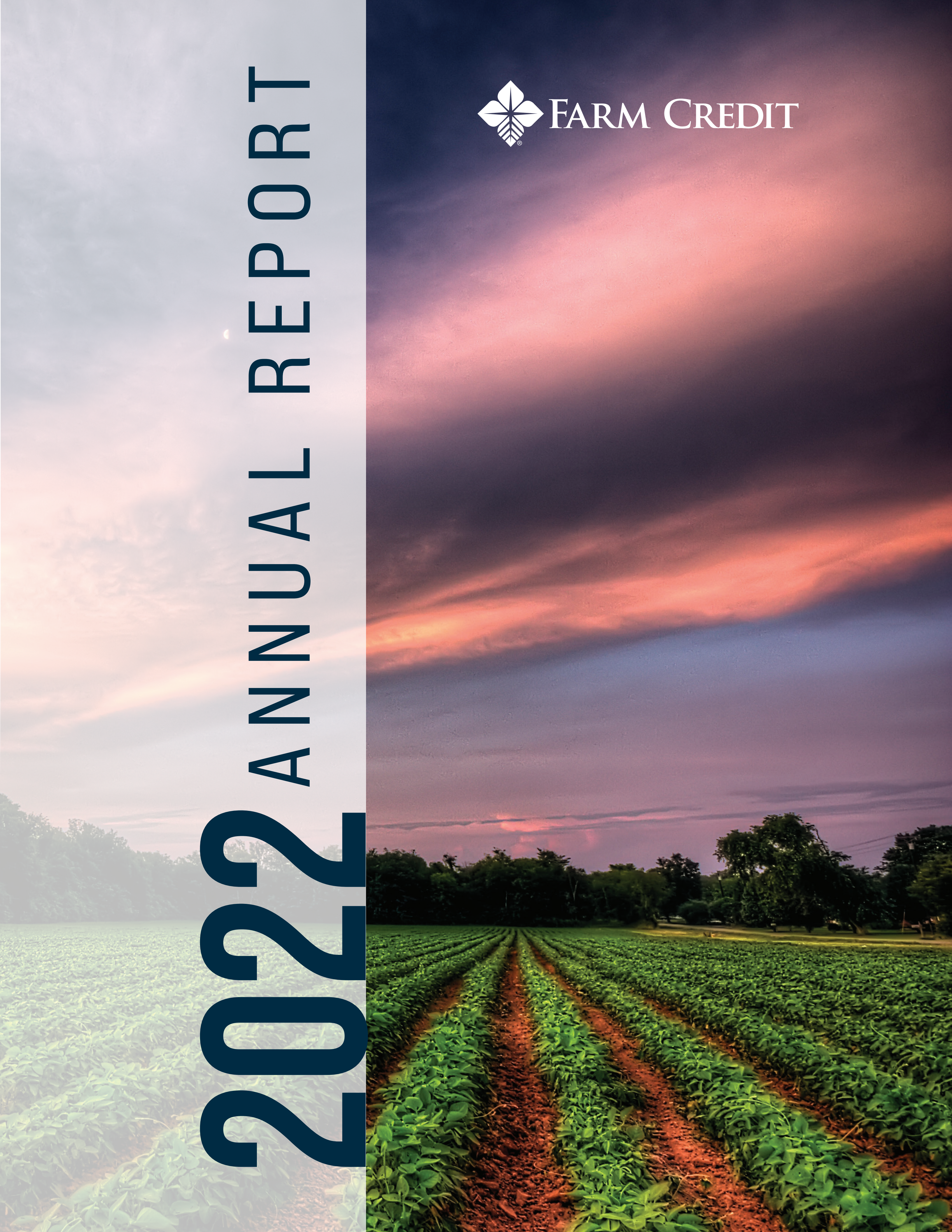


FARM CREDIT

# 2022 ANNUAL REPORT

# OUR CORE PURPOSE

To assist farmers, growers, and harvesters of forestry and aquatic products, agribusinesses, and rural residents in achieving success.

# OUR CORE VALUES

- We nurture customer relationships.
- We strive to exceed our customers' expectations with superior products and services.
- We provide courteous and prompt assistance.
- We are honest and fair with everyone.
- We are good corporate citizens.
- We achieve success through teamwork.
- We price our products and services equitably based on cost, risk, and competition.
- We return as much of our profits as possible in patronage refunds.

# CONTENTS

# MESSAGE FROM THE BOARD CHAIR AND THE CHIEF EXECUTIVE OFFICER

Colonial Farm Credit (Association) continued its mission of supporting rural communities and agriculture with reliable, consistent credit and financial services in 2022.

Weather conditions and commodity prices were favorable for many segments of agriculture, and the harvest season for most producers went well. We continued our annual initiative to talk with customers during the fall to assess the harvest, anticipated operational results, and future funding needs. The conclusions reached from this initiative indicate that credit risk remains low, and we are well positioned to help our customers.

Local loan demand tapered in 2022. The rapid and sustained increase in market interest rates during the year appeared to be the main driver of this change. Loan volume to new customers was down significantly compared to 2021. This drop was offset by existing customer activity plus an increase in purchased participation loans. Purchased participation loans helped both earnings and loan portfolio diversification. Overall, 2022 average month-end loan principal was 4.2% higher than 2021 and compared favorably with 2021 growth of 4.0%. However, we expect to see lower overall growth in 2023 due to the interest rate environment.

Credit quality remained very sound. At year end, non-earning assets (loans for which the accrual of interest has been stopped) was 0.1 percent of total assets. This mirrored the lowest level we've seen in over 14 years.

Net income in 2022 was $19.9 million. This level of income was significantly higher than the budgeted amount. The uptick was supported mainly by these positive and non-recurring events:

- A $3.1 million non-cash special distribution from AgFirst Farm Credit Bank (our funding bank) resulting from its ability to reduce its expenses through called (i.e., refinanced) debt prior to 2022, and
- Provision for loan losses $2.7 million lower than budget due to a change to the use of actual historical data versus data applied from studies. Strong credit quality also contributed to the positive variance.

Our earnings, credit quality, and strong capital position allowed your board of directors to approve a patronage refund of $14.0 million.

The $14.0 million distribution will be paid in April 2023. This amount compares very favorably to the budgeted refund of $8.5 million. The increase is supported by the unanticipated and non-recurring areas noted above. We anticipate provision for loan losses to return to a normal range in 2023. Also, special distributions from AgFirst are not anticipated in future years, given the interest rate increases experienced in 2022 and anticipated in 2023. We expect patronage distributions to return to historically budgeted ranges in future years.

This is the 25th consecutive year that we have returned a portion of our profits to our customers. We are pleased to be in the financial position to return these earnings to you during another year of challenges and uncertainty.

During 2023, we will continue to focus our efforts on serving the credit needs of all eligible customers and assisting customers who have been adversely impacted by difficult economic conditions.

As the Farm Credit System enters its 107th year, your cooperative is positioned to prosper in any foreseeable environment by virtue of our strong financial position, diverse and high quality loan portfolio, sound underwriting standards, skilled and dedicated employees, and exceptional governance. Our combination of competitive rates, patronage refunds, personal service, and extensive local knowledge is unmatched in the financial services world.

Thank you for your loyalty and support. We look forward to serving your financial needs in 2023 and beyond.

A. Kevin Monahan
Board Chair

Paul B. Franklin, Sr.
Chief Executive Officer

## BOARD OF DIRECTORS

*Front Row Left to Right*
**John E. Bickford**
**R. Bertsch Cox**
**Benjamin D. Cole**
**Paul W. Rogers, III**
**Jennifer U. Cuthbertson**
**Donna H. Kerr**
**A. Kevin Monahan**

*Back Row Left to Right*
**William T. Henley, IV**
**Craig H. Giese**
**Frankie R. Large**
**Hugh S. Jones**
**John N. Mills, Jr.**
**Jeffrey W. Griffith**
**Clarke E. Fox**
**Robert R. Womack**

## LEADERSHIP TEAM

*Front Row Left to Right*

**Karen Suzanne Nicely**
Chief Administrative Officer and Corporate Secretary

**Diane S. Fowlkes**
Chief Financial Officer

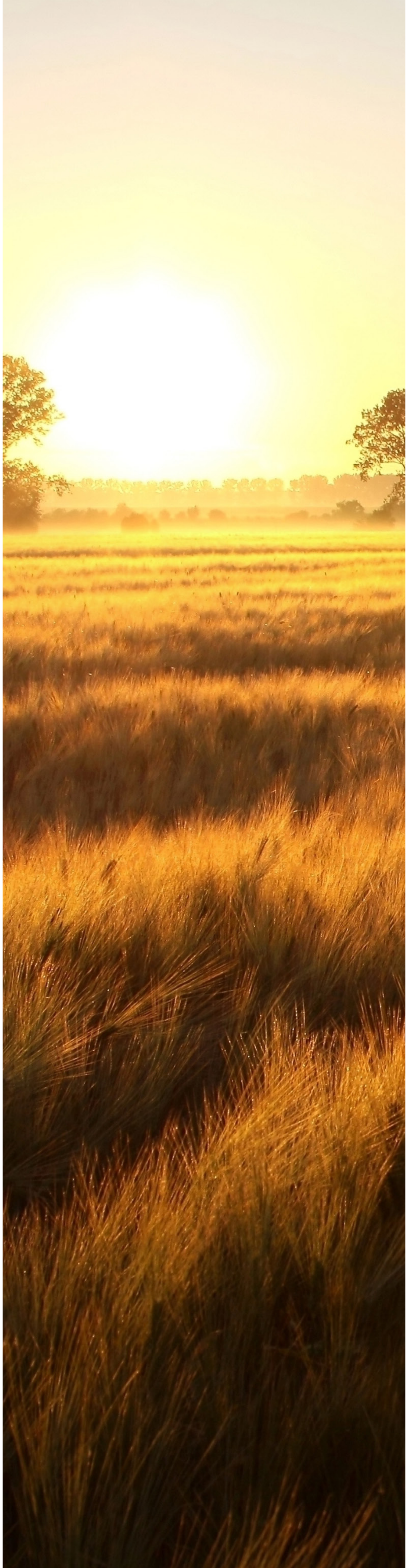
*Back Row Left to Right*

**Ronnie G. Gill**
Chief Lending Officer - Branch Operations

**Patrick J. Tewell**
Chief Credit Officer

**Paul B. Franklin, Sr.**
President and Chief Executive Officer

**Michael J. Lacks**
Chief Lending Officer – Commercial Loans



# THE NEXT GENERATION
## OF AGRICULTURE

Agriculture has been changing rapidly in recent years and will continue to do so for the foreseeable future. These changes include everything from technology being used, to types of operations, to demographics of the producers. With the changes, it is important to be aware of and foster the next generation of agriculture to ensure our country, and world, continue to have access to the food, fuel, and fiber that we all need to live. Here, we feature farmers and operations in different areas and stages of the Next Generation of Agriculture.

## PASSING THE TORCH
### FARM TRANSITIONING FROM ONE GENERATION TO THE NEXT

**Kevin Monahan (father) and Drew and Brad Monahan (sons)**
Surry County, VA


**Brad (right), Kevin (center), and Drew (left) at the farm**

Kevin Monahan has known farming all of his life and a lot of things have changed in agriculture during his farming career, especially the continued advancement of technology. One thing that hasn't changed is the rewarding feeling of working together as a family. Thankfully, his sons, Brad and Drew, have been helping on the farm since they were old enough and always had plans to continue the farm's legacy. The Monahans have been going through the farm transition process for 10 years. While it is still ongoing, Brad and Drew are handling most of the management at this point.

They began the process by forming LLCs, with the sons having an interest in them. So far, the most challenging part of farm transition has been the planning and beginning of a succession plan, as well as keeping good records of the plan. One helpful program that both Monahan brothers participated in was Farm Credit University's AgBiz Planner program, which covers a wide range of areas of a farm operation, including farm succession and transition. They have learned a lot in the 10 years they have been going through this process. They are most looking forward to continuing the work that those before them have worked so hard for and for technology to be more efficient. For anyone going through the farm transition process, the Monahans advise they work to be involved with farm decisions, both large and small, and to be sure and set goals.

When asking Kevin what he plans to do once he has fully handed over the reins: "I plan to stay active in the farm as long as possible, to some extent. I plan to travel and enjoy hunting and fishing."

**Brad (third from right) and Drew (second from right) with their fellow AgBiz Planner participants at the kickoff meeting in 2013**

# TILLING NEW LANDS
## STARTING A NEW CAREER IN FARMING

**Barbara and Dewey Haines**
Fluvanna County, VA


**Dewey and Barbara set up at the Fluvanna Farmers Market**

Barbara and Dewey Haines have always enjoyed gardening and cooking together. They loved the food they harvested each year from their expanding garden and wanted to grow more nutritious and affordable food for their family and local community. In 2018 they decided to buy land in Fluvanna County and leave their corporate jobs in Northern Virginia. They just completed their first year of full-time farming in 2022, growing various vegetables and raising chickens on pasture for meat and eggs.

The biggest challenge they have faced so far is the lack of knowledge required to meet all the tasks that need to be done at the same time on the farm, from operations to managing a business. They have been met with many pleasant surprises in their ag journey, including the availability of information on how to do different projects. The internet has been a great resource for figuring out how to do something new. Though there can be conflicting opinions, the Haines have learned to take bits and pieces from various sources to create a solution that works for them. They recently completed Farm Credit University's AgBiz Planner course, which helped them to analyze each enterprise on their farm, identify areas of weakness, and map out a plan to help guide them.

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It took the Haines a while to find like-minded farmers locally, but once they did, those farmers have been very receptive and encouraging to them as newcomers. The Haines decided to avoid using pesticides and herbicides on their farm. They focus on interplanting and using companion plants to discourage insect pests. The 3-D electric fence around the 1/4 acre garden helps deter deer and rabbits, and they employ silage tarps and lots of mulch to help suppress unwanted weeds. They were recently featured on Virginia Homegrown where they discussed these methods.

For folks wanting to begin a career in agriculture, the Haines cite funding to purchase land and equipment as the largest barrier to entry. Barbara and Dewey rely on their military pensions to cover living expenses, so they don't need off-farm employment. Many beginning farmers must rely on off-farm employment while they simultaneously work to make their operations profitable. Not everyone has access to land and money to pay for equipment and new enterprises require time before they begin to cover the costs. Regardless of these challenges, the Haines encourage more people to get involved in farming. "Now is the time."

**Barbara and Dewey on their farm, Hidden Springs Family Farm**

## SOWING THE SEEDS
### RAISING KIDS ON THE FARM

**Michael, Stephanie, Sophie, and Hannah Ripchick**
New Kent County, VA

**(left to right) Stephanie's dad, Richard P. Dean, Jr., Michael, Stephanie, and Hannah Ripchick**

Stephanie Ripchick grew up on the same farm she now operates as a hotspot for local agro tourism, Holly Fork Farm in Barhamsville, VA. She spent her childhood learning the value of an honest day's work and has done her best to make sure her children grow up learning the same. Though there have been days of feet dragging by her kids, she knows they see the value of hard work, loving each other, and to value happiness over money. She planted the seeds of hard work in her kids' minds at an early age, so that now they know their hard work pays off and nothing in life is free.

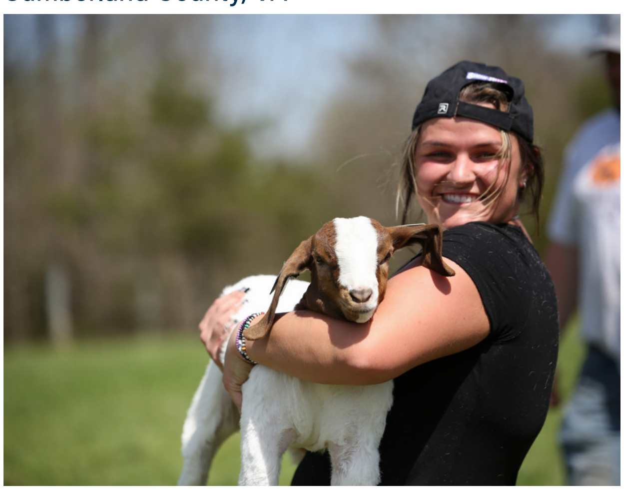
Stephanie never thought she would be doing what she is doing now, but her values changed over time. She dabbled in farming in 2009 and started in earnest in 2010. Though it has been slow to expand, Stephanie is proud of what Holly Fork Farm has become and that it is truly a family affair. Stephanie, her husband Michael, Sophie, Hannah, and even Stephanie's father Richard, are all part of the operation and make sure visitors from all over have an excellent time when they visit. As Stephanie states, "We very much enjoy educating, showing (hands-on), and sharing with farm visitors what we do. We feel it is important to take the time with our patrons to share farming education. If we don't take the time to do so, many will never understand the importance of farming!"

Hannah Ripchick is currently enrolled in Farm Credit University's AgBiz Planner program to learn more about the business side of a farm operation so that when the time comes, the Ripchicks will be prepared for farm succession and transition planning.

Hannah, 16, driving the tractor during strawberry season while her dad looks on

## WATERING THE ROOTS
### SCHOLARSHIP RECIPIENT MAJORING IN AN AG RELATED FIELD

**Sarah-Jane French**
Cumberland County, VA



Sarah-Jane with one of her goats at S and R Meat Goats

Sarah-Jane French's background is heavily rooted in agriculture, having grown up on a 180-acre family farm growing vegetables to sell at local markets as well as larger establishments like Walmart and Virginia military bases. In 2008, Sarah-Jane and her dad showed a goat at the State Fair and joined 4H, which later led to taking out a loan with Farm Credit through the Youth Ag Loan Program to buy goats in Texas and start S and R Meat Goats in 2012. Her passion for exhibiting and showing animals only grew stronger and she later got involved in judging at livestock shows. The networking, fellowship, and way of life in agriculture is what fueled this passion and continues to do so to this day.

Receiving scholarships from the Colonial Agricultural Educational Foundation has enabled Sarah-Jane to follow her dreams and move across the country to attend ag heavy schools. At Texas Tech she majored in animal science with a business concentration and she currently attends Tarleton State University for her graduate degree in animal science with reproductive physiology. Her plans post-college are to either be an embryologist for small ruminants or go into a youth related career, perhaps as a youth livestock specialist or an academic liaison between a university and 4H/FFA.

To those considering pursuing an ag related career, Sarah-Jane advises to not be afraid to explore options and the different sectors in ag. "Build your network across different sectors, join extracurriculars, and, most importantly, get involved!"


Sarah-Jane (seventh from left) at Aksarben in 2021 getting to watch her best friend show a goat that Sarah-Jane raised at S and R Meat Goats, which took the Reserve Champion Spot

# Colonial Farm Credit, ACA

# 2022 ANNUAL REPORT

## Contents

# *Report of Management*

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

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

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

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2022 Annual Report of Colonial 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.

A. Kevin Monahan
Chairman of the Board

Paul B. Franklin, Sr.
Chief Executive Officer

Diane S. Fowlkes
Chief Financial Officer

March 9, 2023

# Consolidated Five - Year Summary of Selected Financial Data

| *(dollars in thousands)* | December 31, 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| **Balance Sheet Data** | | | | | |
| Cash | **$ 86** | $ 44 | $ 157 | $ 550 | $ 66 |
| Loans | **773,453** | 751,079 | 722,734 | 677,201 | 670,269 |
| Allowance for loan losses | **(698)** | (2,625) | (2,596) | (2,365) | (2,245) |
| Net loans | **772,755** | 748,454 | 720,138 | 674,836 | 668,024 |
| Equity investments in other Farm Credit institutions | **9,108** | 6,151 | 6,616 | 7,066 | 6,809 |
| Other property owned | **—** | — | — | 535 | 37 |
| Other assets | **13,190** | 19,717 | 18,325 | 15,755 | 17,585 |
| Total assets | **$ 795,139** | $ 774,366 | $ 745,236 | $ 698,742 | $ 692,521 |
| Notes payable to AgFirst Farm Credit Bank* | **$ 574,936** | $ 556,606 | $ 529,440 | $ 489,386 | $ 484,103 |
| Accrued interest payable and other liabilities with maturities of less than one year | **19,740** | 24,451 | 25,047 | 21,014 | 21,695 |
| Total liabilities | **594,676** | 581,057 | 554,487 | 510,400 | 505,798 |
| Capital stock and participation certificates | **5,631** | 5,699 | 5,520 | 5,238 | 5,047 |
| Unallocated retained earnings | **194,812** | 187,951 | 185,679 | 183,461 | 181,684 |
| Accumulated other comprehensive income (loss) | **20** | (341) | (450) | (357) | (8) |
| Total members' equity | **200,463** | 193,309 | 190,749 | 188,342 | 186,723 |
| Total liabilities and members' equity | **$ 795,139** | $ 774,366 | $ 745,236 | $ 698,742 | $ 692,521 |
| **Statement of Income Data** | | | | | |
| Net interest income | **$ 22,964** | $ 22,245 | $ 21,892 | $ 21,302 | $ 21,403 |
| Provision for (reversal of) allowance for loan losses | **(1,949)** | (7) | 234 | 6 | (78) |
| Noninterest income (expense), net | **(5,052)** | (1,512) | (1,526) | (4,608) | (3,122) |
| Net income | **$ 19,861** | $ 20,740 | $ 20,132 | $ 16,688 | $ 18,359 |
| **Key Financial Ratios** | | | | | |
| Rate of return on average: | | | | | |
| Total assets | **2.58%** | 2.82% | 2.85% | 2.45% | 2.76% |
| Total members' equity | **9.85%** | 10.45% | 10.28% | 8.61% | 9.57% |
| Net interest income as a percentage of average earning assets | **3.04%** | 3.08% | 3.17% | 3.20% | 3.29% |
| Net (chargeoffs) recoveries to average loans | **0.003%** | 0.005% | 0.000% | 0.017% | (0.016)% |
| Total members' equity to total assets | **25.21%** | 24.96% | 25.60% | 26.95% | 26.96% |
| Debt to members' equity (:1) | **2.97** | 3.01 | 2.91 | 2.71 | 2.71 |
| Allowance for loan losses to loans | **0.09%** | 0.35% | 0.36% | 0.35% | 0.33% |
| Permanent capital ratio | **23.66%** | 24.33% | 25.19% | 26.71% | 26.26% |
| Common equity tier 1 capital ratio | **23.64%** | 24.25% | 25.10% | 26.62% | 26.17% |
| Tier 1 capital ratio | **23.64%** | 24.25% | 25.10% | 26.62% | 26.17% |
| Total regulatory capital ratio | **23.73%** | 24.61% | 25.47% | 26.99% | 26.52% |
| Tier 1 leverage ratio** | **25.51%** | 25.97% | 26.80% | 27.90% | 27.85% |
| Unallocated retained earnings (URE) and URE equivalents leverage ratio | **24.80%** | 25.91% | 26.84% | 27.94% | 27.93% |
| **Net Income Distribution** | | | | | |
| Estimated patronage refunds: | | | | | |
| Cash | **$ 13,000** | $ 18,466 | $ 17,914 | $ 14,902 | $ 16,117 |

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2023.*

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

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

*(dollars in thousands, except as noted)*

## GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Colonial Farm Credit, ACA, (Association) for the year ended December 31, 2022 with comparisons to the years ended December 31, 2021 and December 31, 2020. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

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

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

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be 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 1-800-845-1745, ext. 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.colonialfarmcredit.com***, or by calling 1-804-746-1252, or writing to Diane Fowlkes, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual 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, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

## AGRICULTURAL OUTLOOK

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

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

U.S. agricultural market data and are not limited to information/data for the Association.

The USDA's February 2023 forecast estimates net farm income (income after expenses from production in the current year; a broader measure of profits) for 2022 at $162.7 billion, a $21.8 billion increase from 2021 and $70.0 billion above the 10-year average. The forecasted increase in net farm income for 2022, compared with 2021, is primarily due to increases in cash receipts for animals and animal products of $61.9 billion to $257.7 billion and crop receipts of $44.7 billion to $285.7 billion, partially offset by a decrease of $10.3 billion to $15.6 billion in direct government payments and an increase in cash expenses of $65.7 billion to $411.1 billion. If realized, 2022 net farm income (in real dollars of $167.3 billion) would be the highest level since 1973 when net farm income was $172.9 billion adjusted for real dollars.

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

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

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

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

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

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

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

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

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

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

## CRITICAL ACCOUNTING POLICIES

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

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

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

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

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities.

  Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

## ECONOMIC CONDITIONS

Real gross domestic product (GDP) increased 2.1 percent in 2022, (from the 2021 annual level to the 2022 annual level), compared with an increase of 5.9 percent in 2021. The increase in real GDP in 2022 primarily reflected increases in consumer spending, exports, private inventory investment, and nonresidential fixed investment that were partially offset by decreases in residential fixed investment (new single-family construction) and federal government spending. The consensus prediction is now calling for real GDP to increase by 0.8 percent in 2023.

Uncertainty and volatility will be the dominant themes of 2023. While a global recession is still not projected, regional recessions across mature and emerging and developing economies are almost certain. Lingering effects of the pandemic, the ongoing war in Ukraine, elevated inflation, tightening monetary policies, and weak growth will characterize the economic outlook. Risks remain tilted to the downside.

The consumer price index (CPI) rose significantly due to rising costs in most areas between 2021 and 2022. Prices for all major food at home groups rose 16.5 percent, energy prices increased 7.3 percent, and health insurance prices rose 7.9 percent.

The pace of job gains is likely to slow in 2023, but the strength of the current labor market stands in stark contrast to weakness in other areas of the U.S. economy. The substantial inflationary pressures that our economy continues to face has resulted in rising interest rates, and related changes to consumer spending. Rising interest rates could adversely impact our patrons' ability to meet some of their financial obligations to us. During periods of economic slowdown or recession, delinquencies, defaults, repossessions, and losses may increase on our loans. These periods may also be accompanied by decreased consumer demand for loans.

Economic conditions in Virginia and Maryland generally followed national statistics. Virginia's GDP increased 1.3 percent from 2021 to 2022. Housing market indicators have shown signs of cooling. Mortgage interest rates are trending up and are expected to continue rising. New construction will continue to face challenges on multiple fronts (material price surges, supply-chain issues, regulatory constraints, labor shortages, etc.). On the existing home side, there are signs that overall supply is improving, and there should be some return to market seasonality. The number of building permits issued in Virginia between 2017 and 2022 is representative of a 4.9 percent annualized growth rate.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, processing and marketing operations, 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.

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| **Loan Type** | **2022** | | **2021** | | **2020** | |
| Real estate mortgage | $ 523,195 | 67.64 % | $ 514,107 | 68.45 % | $ 478,540 | 66.21 % |
| Production and intermediate-term | 164,429 | 21.26 | 159,690 | 21.26 | 164,816 | 22.80 |
| Loans to cooperatives | 1,991 | 0.26 | 4,822 | 0.64 | 4,636 | 0.64 |
| Processing and marketing | 28,552 | 3.69 | 19,761 | 2.63 | 20,120 | 2.78 |
| Farm-related business | 5,631 | 0.73 | 4,521 | 0.60 | 5,030 | 0.70 |
| Communication | 3,279 | 0.42 | 211 | 0.03 | – | – |
| Power and water/waste disposal | 5,784 | 0.75 | 290 | 0.04 | 720 | 0.10 |
| Rural residential real estate | 36,580 | 4.73 | 44,371 | 5,91 | 45,565 | 6.30 |
| International | 3,917 | 0.51 | 3,306 | 0.44 | 3,307 | 0.46 |
| Lease receivables | 95 | 0.01 | – | 0.00 | – | 0.00 |
| Total | $ 773,453 | 100.00 % | $ 751,079 | 100.00 % | $ 722,734 | 100.00 % |

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The Association has a regional office in Hughesville, Maryland. All other regional offices are in the state of Virginia. The geographic distribution of loans by regional office for the past three years is as follows:

| | December 31, | | |
|---|---|---|---|
| **Regional Office** | **2022** | **2021** | **2020** |
| Farmville | 25.59% | 26.01% | 26.79% |
| Hughesville | 11.13 | 11.37 | 10.81 |
| Mechanicsville | 21.09 | 21.25 | 29.85 |
| Tappahannock | 18.39 | 18.74 | 9.55 |
| Windsor | 23.80 | 22.63 | 23.00 |
| | 100.00% | 100.00% | 100.00% |

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

The major commodities in the Association's loan portfolio are shown below. As an additional hedge against agriculture industry risk, 59 percent of the Association's loans at December 31, 2022 were made to borrowers whose repayment capacity was highly dependent upon off-farm income.

| | Percent of Portfolio | | |
|---|---|---|---|
| **Commodity Group** | **2022** | **2021** | **2020** |
| Field Crops | 29% | 29% | 29% |
| Timber | 32 | 33 | 32 |
| Part-time Farmers and Other | 21 | 18 | 18 |
| Livestock | 13 | 14 | 15 |
| Rural Home | 5 | 6 | 6 |
| Total | 100% | 100% | 100% |

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers, including part-time farmers. The Association's loan portfolio includes field crops such as cash grains, peanuts, tobacco, and cotton; timber products; and livestock operations including poultry, dairy, beef cattle, swine, and horses. Many of these operations are diversified within their enterprise and/or with crop production, which reduces overall risk exposure. Demand, supply, weather, and international trade are some of the factors affecting the prices of these commodities. Even though the average loan size has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The increase in gross loan volume for the twelve months ended December 31, 2022, is primarily attributed to increased opportunities to purchase high quality participation loans across several loan types.

Over the past few years, the majority of the Association's growth has come from real estate mortgages, which make up approximately 68 percent of the Association's portfolio. Production and intermediate-term loans are also a substantial portion of the portfolio. The short-term portfolio, which is comprised heavily of working capital loans, normally reaches a peak balance in late summer and declines in the fall months as commodities are marketed and proceeds are applied to these loans. While working capital loan balances were repaid in the fall, outstanding balances increased during December to prepay operating expenses for the coming season.

During 2022, the Association continued buying loan participations within the System on a selective basis. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income. Competition for quality credits has been strong for the past several years. However, volatility in the bond market during 2022 provided an opportunity to purchase into additional participation opportunities as large Agribusiness pursued loans in lieu of bonds for funding.

| | December 31, | | |
|---|---|---|---|
| **Loan Participations:** | **2022** | **2021** | **2020** |
| Participations Purchased – FCS Institutions | $ 73,010 | $ 54,791 | $ 51,862 |
| Participations Sold | – | (277) | (886) |
| Total | $ 73,010 | $ 54,514 | $ 50,976 |

The Association sells qualified long-term residential mortgage loans into the secondary market. For the years ended December 31, the Association originated loans for resale totaling $22,447 in 2022, $35,301 in 2021, and $43,609 in 2020, which were sold into the secondary market.

**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 reviews 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 the lending staff. 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. Long term real estate loans must be collateralized by first liens on real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Long term real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for most real estate loans of more than $250. 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. Following, are the classification definitions.

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

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

| Credit Quality | 2022 | 2021 | 2020 |
|---|---|---|---|
| Acceptable & OAEM | 99.55% | 99.52% | 99.33% |
| Substandard | 0.45% | 0.48% | 0.67% |
| Total | 100.00% | 100.00% | 100.00% |

The Association had no loans with credit quality of Doubtful or Loss for the reporting periods above.

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** | **2022** | **2021** | **2020** |
| Nonaccrual loans | $ 1,144 | $ 1,032 | $ 1,122 |
| Restructured loans | 273 | 347 | 391 |
| Accruing loans 90 days past due | – | – | – |
| Total high-risk loans | 1,417 | 1,379 | 1,513 |
| Other property owned | – | – | – |
| Total high-risk assets | $ 1,417 | $ 1,379 | $ 1,513 |
| **Ratios** | | | |
| Nonaccrual loans to total loans | 0.15% | 0.14% | 0.16% |
| High-risk assets to total assets | 0.18% | 0.18% | 0.20% |

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $112 or 11 percent in 2022. The increase in nonaccrual loans in 2022 was primarily due to one account transferring into nonaccrual status in 2022, and lower repayments on nonaccrual loans during the year. Of the $1.1 million in nonaccrual volume at December 31, 2022, $180 or 16 percent, compared to 67 percent and 38 percent at December 31, 2021 and 2020, respectively, were current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be reinstated to accrual status.

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

*Allowance for Loan Losses*

The allowance for loan losses at each period end was determined according to generally accepted accounting principles and considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

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

| Allowance for Loan Losses Activity: | Year Ended December 31, 2022 | 2021 | 2020 |
|---|---|---|---|
| Balance at beginning of year | $ 2,625 | $ 2,596 | $ 2,365 |
| Charge-offs: | | | |
| Real estate mortgage | – | (1) | (1) |
| Production and intermediate-term | (21) | (28) | (58) |
| Total charge-offs | (21) | (29) | (59) |
| Recoveries: | | | |
| Real estate mortgage | – | 19 | 31 |
| Production and intermediate-term | 43 | 46 | 25 |
| Total recoveries | 43 | 65 | 56 |
| Net (charge-offs) recoveries | 22 | 36 | (3) |
| Provision for (reversal of) loan losses | (1,949) | (7) | 234 |
| Balance at end of year | $ 698 | $ 2,625 | $ 2,596 |
| Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period | 0.00% | 0.00% | (0.00)% |

The net loan charge-offs were primarily associated with default occurring in loans that were under-collateralized. Several nonaccrual loans were fully collected during the year.
The allowance for loan losses by loan type for the most recent three years is as follows:

| Allowance for Loan Losses by Type | December 31, 2022 | 2021 | 2020 |
|---|---|---|---|
| Real estate mortgage | $ 469 | $ 1,783 | $ 1,693 |
| Production and intermediate-term | 152 | 574 | 623 |
| Agribusiness | 32 | 101 | 105 |
| Communication | 3 | 1 | – |
| Power and Water/Waste Disposal | 5 | 1 | 2 |
| Rural residential real estate | 33 | 154 | 161 |
| International | 4 | 11 | 12 |
| Total allowance | $ 698 | $ 2,625 | $ 2,596 |

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

| Allowance for Loan Losses as a Percentage of: | December 31, 2022 | 2021 | 2020 |
|---|---|---|---|
| Total loans | 0.09% | 0.35% | 0.36% |
| High-risk loans | 49.26% | 190.36% | 171.58% |
| Nonaccrual loans | 61.01% | 254.36% | 231.37% |

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

## RESULTS OF OPERATIONS

*Net Interest Income*

Net interest income, the difference between interest income and interest expense, was $22,964, $22,245 and $21,892 in 2022, 2021, and 2020, respectively. 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 |
|---|---|---|---|---|
| **12/31/22 - 12/31/21** | | | | |
| Interest income | $ 1,647 | $ 2,061 | $ (284) | $ 3,424 |
| Interest expense | 799 | 1,906 | – | 2,705 |
| Change in net interest income | $ 848 | $ 155 | $ (284) | $ 719 |
| **12/31/21 - 12/31/20** | | | | |
| Interest income | $ 1,669 | $ (2,135) | $ (58) | $ (524) |
| Interest expense | 757 | (1,634) | – | (877) |
| Change in net interest income | $ 912 | $ (501) | $ (58) | $ 353 |

* *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, 2022 | 2021 | 2020 | Percentage Increase/(Decrease) 2022/2021 | 2021/2020 |
|---|---|---|---|---|---|
| Loan fees | $ 443 | $ 780 | $ 469 | (43.21)% | 66.31 % |
| Fees for financially related services | 60 | 51 | 54 | 17.65 | (5.56) |
| Patronage refund from other Farm Credit Institutions | 7,390 | 11,241 | 9,701 | (34.26) | 15.87 |
| Gains on sales of rural home loans, net | 275 | 548 | 681 | (49.82) | (19.53) |
| Gains on sales of premises and equipment, net | 85 | (1) | 39 | (8,600.00) | (102.56) |
| Gains (losses) on other transactions | 99 | 93 | 25 | 6.45 | 272.00 |
| Insurance Fund refunds | – | – | 121 | – | (100.00) |
| Other noninterest income | 286 | 234 | 217 | 22.22 | 7.83 |
| Total noninterest income | $ 8,638 | $ 12,946 | $ 11,307 | (33.28)% | 14.50 % |

Fee income on loans decreased $337 from 2021 to 2022 primarily as a result of fees received in 2021 for originating PPP loans.

Fess for financially related services increased $9 or 17.62 percent from 2021 to 2022 due to an increase in fees for appraisal services.

The Association receives patronage refunds from the Bank based on its notes payable. In 2022, 2021, and 2020 the Association received a special patronage distribution of $3,145, $7,246, and $5,872 respectively, in addition to the normal patronage of 75 basis points. The special patronage distribution is directly related to the Bank's earnings and capital level, which fluctuate. The special distributions for 2020 and 2021 were in the form of cash, whereas the special distribution in 2022 was in the form of allocated surplus.

Gains on sale of rural home loans decreased $273 or 49.82 percent for the year ended December 31, 2022 as a result of closing fewer rural home loans in 2022.

Gains on sales of premises and equipment increased by $86 from 2021 to 2022. In 2022, the Association sold six used fleet vehicles for a total gain of $85.

Other noninterest income increased $52 or 22.22 percent from 2021 to 2022 primarily as a result of increased fee income recorded for leased originated by the Association and held by Farm Credit Leasing. Lease income increased $65 due to increased demand mainly for building leases.

*Noninterest Expense*

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

| Noninterest Expense | For the Year Ended December 31, 2022 | 2021 | 2020 | Percentage Increase/(Decrease) 2022 | 2021 |
|---|---|---|---|---|---|
| Salaries and employee benefits | $ 9,284 | $ 10,578 | $ 9,480 | (12.23)% | 11.58 % |
| Occupancy and equipment | 536 | 522 | 564 | 2.68 | 7.45 |
| Insurance Fund premiums | 1,109 | 836 | 475 | 32.66 | 76.00 |
| Purchased services | 560 | 561 | 554 | (0.18) | 1.26 |
| Data processing | 170 | 179 | 108 | (5.03) | 65.74 |
| Other operating expenses | 2,039 | 1,757 | 1,681 | 16.05 | 4.52 |
| (Gains)losses on other property owned, net | – | – | (32) | – | (100.00) |
| Total noninterest expense | $ 13,698 | $ 14,433 | $ 12,830 | (5.09)% | 12.49 % |

Overall, salaries and employee benefits decreased $1,294 or 12.23 percent from 2021 to 2022. The decrease was primarily attributed to a decrease in pension expense. In addition, health insurance expense decreased by $86. From 2020 to 2021 salaries and employee benefits increased by $1,098 due to higher pension expense, health insurance premiums, and salaries and incentives.

Insurance Fund premiums increased $273 or 32.66 percent for the year ended December 31, 2022, compared to 2021 as a result of an increase in insured debt outstanding and rate adjustments. FCSIC set premiums at 16 basis points of adjusted insured debt outstanding at the beginning of 2022. At June 30, 2022, FCSIC made a retroactive adjustment to January 1, 2022 to provide for a rate of 20 pasis points, and maintained that rate throughout the year. The premium in 2021 was set at 16 basis points at the beginning of the year, and maintained that rate throughout the year. In addition, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments for all periods reported.

Fluctuations in gains and losses on other property owned occur as a result of the properties held and changes in the market for them. The Association sold an owned property early in 2020 and the gains recorded exceeded necessary maintenance expenses.

Other operating expenses increased $282 from 2021 to 2022, primarily due to increased non-property insurance, offset by decreased net nonaccrual loan expenses, and increased non-qualifed deferred benefit plan expense. From 2020 to 2021 other operating expenses increased $76 primarily due to increased net nonaccural loan expenses and non-qualifed deferred benefit plan expenses.

*Income Taxes*

The Association recorded a benefit for income taxes of $8 for the year ended December 31, 2022, as compared to a provision of $25 for 2021 and a provision of $3 for 2020. The increase in tax provision in 2021 is primarily attributed to PPP fee income. The benefit of $8 in 2022 is the result of true-up entries recorded to adjust liabilities after filing the 2021 return. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

*Key Results of Operations Comparisons*

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

| Key Results of Operations Comparisons | For the Year Ended 12/31/22 | 12/31/21 | 12/31/20 |
|---|---|---|---|
| Return on average assets | 2.58% | 2.82% | 2.85% |
| Return on average members' equity | 9.85% | 10.45% | 10.28% |
| Net interest income as a percentage of average earning assets | 3.04% | 3.08% | 3.17% |
| Net (charge-offs) recoveries to average loans | 0.003% | 0.005% | –% |

A significant portion of the Association's net income for the past several years has been special patronage distributions from

AgFirst. While the Association does not budget for these distributions, they have had a meaningful impact on the ratios in the Key Results of Operations Comparison. Additionally they have been a major contributor to the sizeable patronage distributions returned to the Association's borrowers over the past five years. Special distributions from AgFirst are considered extraordinary, despite recent historical precedence. In 2022, the special distribution was declared as allocated surplus, instead of cash like previous years. This is reflected as income for the Association, but retained by the Bank and is therefore considered a capital investment for the Association. In order to continue to meet the high standards and goals set for performance, the Association must focus on attracting and maintaining high quality loan volume and managing expenses for income growth, without consideration of future extraordinary income.

**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 fund requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2022, were $574,936 as compared to $556,606 at December 31, 2021, and $529,440 at December 31, 2020. The increases from 2021 to 2022 and from 2020 to 2021 were attributable to increased loan volume. The average volume of outstanding notes payable to the Bank was $557,636 and $526,890 for the years ended December 31, 2022 and 2021, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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. The Association's participation in secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

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

*Funds Management*

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

Demand for loan types is a 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. 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.

***Future of LIBOR***

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

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

The Association has exposure to LIBOR arising from loans made to customers and Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf.

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

The Association has implemented LIBOR transition plans and continues to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

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

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

| *(dollars in thousands)* | Due in 2023 (On or Before June 30,) | Due After June 30, 2023 | Total |
|---|---|---|---|
| Loans | $ 1,373 | $ 9,559 | $ 10,932 |
| Total | $ 1,373 | $ 9,559 | $ 10,932 |
| Note Payable to AgFirst Farm Credit Bank | $ 1,015 | $ 7,068 | $ 8,083 |
| Total | $ 1,015 | $ 7,068 | $ 8,083 |

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

*Relationship with the Bank*

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

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

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

**CAPITAL RESOURCES**

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2022 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2022, increased 3.70 percent to $200,463 from the December 31, 2021 total of $193,309. At December 31, 2021, total members' equity increased 1.34 percent from the December 31, 2020 total of $190,749. The increases were attributed to net income partially offset by cash patronage.

Total capital stock and participation certificates were $5,631 on December 31, 2022, compared to $5,699 on December 31, 2021 and $5,520 on December 31, 2020. The increase in 2021 was related to stock purchased by new members while the decrease in 2022 was the result of stock retirements on paid-in-full accounts exceeding new stock issuances.

**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 net earnings attributable to (a) the portion of loans participated to another institution, and (b) non-patronage sourced 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 estimated patronage distributions of $14,000 in 2022, $18,466 in 2021, and $17,914 in 2020.

The Association's Board of Directors adopted a resolution for 2022 that established separate "pools" for any loans (a) originated under the Farm Credit Express Program, (b) acquired purchased participations (c) sold to another institution and (d) made to all other patrons, based on the income generated by each such group.

Additionally, the resolution also included a provision to exclude interest contractually due in prior years from the basis on which patronage is factored for nonaccrual loans. This provision allows a borrower whose account(s) has been in nonaccrual status to receive patronage, on the current year's interest obligation, in the year that the account(s) returns to accruing status or is paid in full.

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

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

The Association is committed to the future success of Young, Beginning and Small farmers.

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

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

| | As of December 31, 2022 | |
|---|---|---|
| | **Number of Loans** | **Amount of Loans** |
| Young | 1,014 | $100,077 |
| Beginning | 2,550 | $282,802 |
| Small | 4,371 | $418,352 |

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

The 2017 USDA Ag census is used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory there were 12,630 reported farmers of which by definition 1,406 or 11.1 percent were Young, 3,939 or 31.2 percent were beginning, and 11,776 or 93.2 percent were small.

Comparatively, as of December 31, 2022, the demographics of the Association's agricultural portfolio contained 4,902 farmers, of which by definition 829 or 16.9 percent were Young, 2,205 or 45.0 percent were Beginning, and 3,557 or 72.6 percent were Small.

The Association currently has a high market share of YBS farmers within its territory. As of December 31, 2022, the Association was doing business with 59.0 percent of the Young farmers, 56.0 percent of the Beginning farmers, and 30.2 percent of the Small farmers identified by the 2017 USDA Ag census data.

In spite of that large market share, the Association made 484 loans to farmers classified as Young, Beginning, or Small for $49,984 in new volume for the year ending December 31, 2022. The Association has 20 guaranteed loans for $1,384 to Young, Beginning, and Small farmers, representing 43.9 percent of the total volume of Association loans that are guaranteed by government agencies.

The board-approved YBS farmer goals for the next three years are to have loans with at least 55.0 percent of Young farmers, at least 55.0 percent of Beginning farmers, and at least 30.0 percent of Small farmers. These goals are based on the 2017 USDA Ag census. Progress towards meeting these goals is reported quarterly to the board of directors.

The following strategies and outreach programs have been conducted, allowing the Association to meet its objectives and goals of the YBS farmer program.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations
- Sponsor seminars on farm transition planning, financial management, and business planning.
- Sponsor extension and grower meetings that have a focus on YBS farmer issues.
- Promote FSA guaranteed loan program for YBS borrowers to allow the Association to manage risk while providing more opportunities and financing to this group
- Promote our youth loan program to provide loans to youth involved in 4H and FFA projects, primarily livestock or crop production
- Support the Colonial Agricultural Educational Foundation and Agriculture in the Classroom programs in Virginia and Maryland
- Support AgDays and other events that promote agriculture to school children.
- Participate with Virginia and Maryland Farm Bureaus in their young farmer programs
- Partner with neighboring Farm Credit Associations to offer the AgBiz Basics and Planner Program. These four and ten-module courses teach Young farmers about financial management and business planning.
- Support YBS activities at Virginia Tech, Virginia State University, and University of Maryland
- Sponsor and partner with local farmers' markets and local food cooperatives
- Offer a small farm loan program that allows for a lower credit score threshold for applicants with small farms who meet other eligibility criteria.
- Provide tools and information for YBS farmers on the Colonial Farm Credit website.
- Periodically feature YBS farmers in the Leader magazine, on social media, and in the Annual Report.

**Capital**

Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new 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. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

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

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

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

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

The following sets forth the regulatory capital ratios:

| Ratio | Minimum Requirement | Capital Conservation Buffer | Minimum Requirement with Capital Conservation Buffer | Capital Ratios as of 2022 | 2021 | 2020 |
|---|---|---|---|---|---|---|
| Risk-adjusted ratios: | | | | | | |
| CET1 Capital Ratio | 4.5% | 2.5% | 7.0% | 23.64% | 24.25% | 25.10% |
| Tier 1 Capital Ratio | 6.0% | 2.5% | 8.5% | 23.64% | 24.25% | 25.10% |
| Total Capital Ratio | 8.0% | 2.5% | 10.5% | 23.73% | 24.61% | 25.47% |
| Permanent Capital Ratio | 7.0% | 0.0% | 7.0% | 23.66% | 24.33% | 25.19% |
| Non-risk-adjusted: | | | | | | |
| Tier 1 Leverage Ratio | 4.0% | 1.0% | 5.0% | 25.51% | 25.97% | 26.80% |
| UREE Leverage Ratio | 1.5% | 0.0% | 1.5% | 24.80% | 25.91% | 26.84% |

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

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

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

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB):

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

# Disclosure Required by Farm Credit Administration Regulations

## Description of Business

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

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

The association is involved in one Unincorporated Business Entities (UBE), which was organized for the purpose of acquiring and managing unusual or complex collateral associated with loans. Colonial OPO, LLC is a limited liability company in Virginia. The sole purpose of Colonial OPO is to acquire, hold, manage, preserve, and if appropriate, operate the assets of acquired property associated with loans until the time such assets may be sold or otherwise disposed.

## Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Virginia or Maryland:

| Location | Description | Form of Ownership |
|---|---|---|
| 7104 Mechanicsville Tnpk.<br>Mechanicsville, VA | Administrative/<br>Regional Office | Owned |
| 135 Queen Street<br>Tappahannock, VA | Regional Office | Owned |
| 18639 Eltham Road<br>West Point, VA | Office | Owned |
| 428 E. Main Street<br>Waverly, VA | Office | Owned |
| 11295 Windsor Boulevard<br>Windsor, VA | Regional Office | Owned |
| 1700-A S. Main Street<br>Farmville, VA | Regional Office | Owned |
| 201 E. Danville Street<br>South Hill, VA | Office | Owned |
| 22323 E. Main Street<br>Courtland, VA | Office | Rented (1)<br>($1,123 per month) |
| 7431 Old Leonardtown Road<br>Hughesville, MD | Regional Office | Rented (2)<br>($3,820 per month) |
| 13915 Boydton Plank Road Ste B<br>Dinwiddie, VA | Office | Rented (3)<br>($900 per month) |
| 22776 Timberlake Road Ste A<br>Lynchburg, VA | Office | Rented (4)<br>($1,377 per month) |
| 135 Hanbury Road Ste C - 2<br>Chesapeake, VA | Office | Rented (5)<br>($1,504 per month) |
| 2987 River Road West<br>Goochland, VA | Office | Rented (6)<br>($1,500 per month) |

*(1) 1 year lease terminating on February 29, 2023.*
*(2) 3 year lease terminating on May 31, 2025.*
*(3) 2 year lease terminating on August 31, 2023.*
*(4) 5 year lease terminating on February 28, 2024.*
*(5) 3 year lease terminating on July 31, 2023.*
*(6) 3 year lease terminating on February 1, 2024.*

## Legal Proceedings

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

## Description of Capital Structure

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

## Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 12 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 |
|---|---|
| Paul B. Franklin Sr. | ***President and Chief Executive Officer*** since March 2017. Previously served as Chief Lending Officer for the Association. Serves as a Director and Secretary for the Virginia Agribusiness Council (advocates for the business interests of the diversified industry of agricultural and forestry). Serves as Chair of the Investment Committee of the Colonial Agricultural Education Foundation (nonprofit educational foundation). |
| Diane S. Fowlkes | ***Chief Financial Officer and Treasurer*** since August 2013. Serves as vice-chair and finance committee chair for the Virginia Foundation for Agriculture in the Classroom (provides youth agricultural education). |
| Ronnie G. Gill | ***Chief Lending Officer -Branch Operations*** since October 2012. Serves as Treasurer for the Virginia Grain Producers Association (promotion and marketing of grain) and as an elected member of the Essex County Board of Supervisors (effective January 1, 2020). He also serves as a director for the Northern Neck Farm Museum (antique farm museum), and the Virginia Tech College of Agriculture and Life Sciences Alumni Organization (support of college and alumni enrichment). |
| Michael J. Lacks | ***Chief Lending Officer-Commercial Loans*** since March 2017. Previously served as Relationship Manager in the Commercial Loan Group for the Association. |
| Karen Suzanne Nicely | ***Chief Human Resources and Corporate Secretary*** since October 2003. |
| Patrick J. Tewell | ***Chief Credit Officer*** since January 2017. Previously served as Examiner for Farm Credit Administration. Serves as Treasurer for the Virginia Ag Expo (agricultural field). |

The total amount of compensation earned by the CEO and all senior officers and other highly compensated employees as a group during the years ended December 31, 2022, 2021, and 2020, is as follows:

| Name of Individual or Number in Group | Year | Salary | Bonus | Deferred Comp. | Change in Pension Value | Perq/ Other* | Total |
|---|---|---|---|---|---|---|---|
| Paul B. Franklin | 2022 | $ 328,275 | $ 71,988 | $ – | $ (305,327) | $ 18,464 | $ 113,400 |
| Paul B. Franklin | 2021 | $ 298,004 | $ 69,013 | $ – | $ 444,567 | $ 17,993 | $ 829,577 |
| Paul B. Franklin | 2020 | $ 288,269 | $ 56,434 | $ – | $ 579,301 | $ 14,951 | $ 938,955 |
| 5 | 2022 | $ 848,192 | $ 187,329 | $ – | $ (931,176) | $ 78,721 | $ 183,066 |
| 6 | 2021 | $ 855,578 | $ 192,642 | $ – | $ 531,592 | $ 74,214 | $ 1,654,026 |
| 7 | 2020 | $ 920,411 | $ 180,076 | $ – | $ 1,037,896 | $ 80,722 | $ 2,219,105 |

* *The Perquisites/Other amount disclosed in the above chart includes company contributions to 401(k) plan (See Note 9, Employee Benefits Plans, to the Financial Statements), group life insurance premiums, compensation value for Association provided automobile , spouse travel expense and Farm Credit apparel expense.*

The disclosure of information on the total compensation paid during 2022 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

The institution's shareholders have the authority to petition for an advisory vote on CEO and senior officers' compensation. For the year ended December 31, 2022, no advisory votes were held.

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

The discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa. An increase in the discount rate assumption from the prior year partially offset by an increase in benefits earned caused the pension values to decrease at December 31, 2022.

At December 31, 2014, the life expectancy actuarial assumption was updated to reflect recent mortality studies indicating longer life spans. This change increased pension values as the benefit payments are expected to be made for a longer time span.

The disclosure of information on the total compensation paid during 2022 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

Two individuals included in the senior officer or other highly compensated employee group had $0 changes in the value of pension benefits. Due to their hire dates, they are not eligible for the defined benefit pension plan but participate in the defined contribution Farm Credit Benefits Alliance 401(k) plan. See *Note 9, Employee Benefit Plans* for additional details.

Prior to the end of each fiscal year the Board reviews the appropriateness of an incentive plan for all Association employees for the following year. In addition to a base salary, employees and senior officers can earn additional compensation under an incentive plan. The Association's 2019 incentive plan was designed to motivate employees to exceed the business plan goals during the fiscal year and covered all staff members employed as of December 31, 2022. A separate incentive plan is in place for appraisal personnel. The plan focused on meeting target earnings, patronage distribution, credit administration, credit quality, and customer service goals. The plan allowed for both individual and group incentives based on performance criteria. Allowable incentives ranged up to 22 percent of base pay at the end of the plan year for senior officers, and up to 19 percent of base pay in effect at the end of the plan year for other employees depending upon their position. Also, all employees are eligible to receive awards based upon 1) years of service or 2) exceptional performance as defined in the plan. Bonuses and incentives are shown in the year earned and are paid in the first quarter of the subsequent year.

All employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

The compensation plan for the CEO and other senior officers is approved annually by the Compensation Committee, guided by the following policy objective:

To provide a comprehensive compensation plan that assists management in attracting and retaining professional, motivated, customer-oriented employees, and which appropriately rewards employees taking into consideration competition, local-market compensation levels, expertise, experience and contributions (individual and team) to the association's success. These objectives will be accomplished by:

- Utilizing the AgFirst District salary and grade schedules, as well as other market data and studies, for grade placement, merit increases and salary level.
- Participating in AgFirst District benefit plans, as well as offering other benefits as deemed appropriate by the board.
- Utilizing a combination of salary, variable pay, benefits and special awards.
- Tying compensation to the achievement of business plan objectives and individual goals, and emphasizing balance among the four primary critical performance areas: business development, asset quality, earnings and human resources.
- Providing an honest and objective performance appraisal review to each employee at least annually.

The CEO and other senior officers participate in the identical compensation, retirement, incentive and benefit plans, with the exception of the recently retired CEO's supplemental non-qualified retirement plan, as described below.

Senior officers are paid a competitive, market-based salary commensurate with their tenure, expertise and education. Salary ranges for each position are adjusted periodically based on compensation studies. Senior officers are eligible for an annual salary increase based on merit, as determined by an annual performance appraisal review documenting individual performance relative to individual goals and business plan objectives for the calendar year. The CEO's performance evaluation and any merit increase are approved by the Board of Directors in December, upon recommendation from the Compensation Committee. The CEO prepares and approves the annual performance appraisal review and determines merit increases for other senior officers in February. Merit increases for all senior officers are effective February 1, and generally fall within ranges approved annually by the Compensation Committee. These ranges are differentiated by individual performance rating and current salary relative to the salary range midpoint. Merit increases are typically not granted once an employee reaches the mid-point of the salary range, which is considered the "market value" of the job. Salary ranges are adjusted annually based on market studies.

The Association's salary plan for senior officers (including annual merit increases) provides a base compensation plan that is market-driven, allowing for the attraction and retention of professional managers to implement the Association's strategic and annual business plans. Attracting and retaining high quality employees is critical to the Association's long-term success, including the goal of filling mid-level management and senior officer positions from within. A low rate of senior officer turnover is critical in achieving our mission and providing stable leadership and strong financial performance. Overall senior officer salaries are controlled by the Compensation Committee's approval of salary ranges and merit increase ranges.

Senior officers participate in an incentive compensation plan. The objectives of this plan are to:

- Ensure compensation structure is consistent with the Association's core purpose, core values and strategic business plan,
- Focus decisions and actions on key operating objectives that will provide long-term financial growth and stability to the Association,
- Provide competitive compensation packages in order to attract, motivate, reward and retain superior employees,
- Provide flexibility to management in assigning workload to maximize allocation of resources and expertise,
- Reinforce a sales culture,
- Emphasize teamwork, and
- Respond to an increasingly significant practice of goal oriented cash incentives among financial institutions.

This incentive plan contains several Association-level performance measures which must be met before a payout under either of the two components described below is possible, including: payment of a patronage refund, compliance with funding bank loan agreement covenants, not being under a regulatory enforcement action, and minimum credit management, credit quality and customer service measures. Payments under either component are based upon performance for the previous calendar year and are made during the first quarter, after the annual external audit is finalized.

The incentive plan contains a profit sharing component. In order to receive payment under this component, the senior officer must receive an "effective" overall annual performance rating, and the Association's core earnings must be equal to or greater than budget. Payout is in increments from 3 percent up to a maximum of 7 percent of year-end salary, depending upon the level of core earnings relative to budget.

The incentive plan also contains an individual performance incentive component, whereby the senior officer can earn up to an additional 15 percent of year-end salary if his/her annual performance rating falls into the highest quadrant ("highly effective"). The level of incentive paid to the CEO, if any, is approved by the board of directors upon recommendation from the Compensation Committee. Payments to other senior officers are determined by the CEO.

Incentive-based compensation for senior officers is reasonable and proportionate to the services performed and results achieved, and it is structured to prevent undue risk to the Association, by virtue of:

- The plan's structure which prevents payout if the Association is experiencing financial or credit problems, doesn't pay a patronage to customers, is not adequately serving its customers or is under a regulatory enforcement action,
- Senior officers having to achieve at least "effective" overall performance ratings to receive payment, and
- The total maximum payment for senior officers being a modest 22 percent of salary, with actual payout level determined by both individual and overall Association performance.

Senior officers participate in plans, depending upon their original date of employment.

A defined benefit plan is provided those officers employed prior to January 1, 2003. Benefits are determined based on years of service times highest consecutive thirty-six month average salary times 2 percent. Full benefit payments are payable upon retirement at age 65, or at age 62 with 10 years of service. Additionally, unreduced benefits are payable based on the "rule of 85", provided the officer is at least 55 years of age and his/her age plus years of service total at least 85.

Senior officers employed on or after January 1, 2003 receive a nonelective employer contribution of 3 percent of total compensation into the 401(k) savings plan. Additionally, any balances accrued under the defined contribution plan (Cash Balance Plan) were disbursed to plan participants in March 2017 according to his/her individual distribution election. See *Note 9- Employee Benefit Plans*.

The Association sponsors a non-qualified, defined-benefit, supplemental executive retirement plan for the former CEO and the current CEO. The purpose of the non-qualified plan is to provide benefits that supplement the IRS limitations imposed on the qualified defined-benefit plan in which the Association's employees participate. For eligible key employees, compensation in excess of the 401(a) (17) limit and benefits in excess of the 415(b) limit in the qualified defined-benefit plan will be made up through the non-qualified plan. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

This plan does not expand total compensation or the Association's expenses, but serves only to make the employee "whole" considering IRS payment limitations on the qualified retirement plan.

The total accumulated pension benefits for the CEO and all senior officers as a group as of December 31, 2022, are as follows:

**Pension Benefits Table**
**As of December 31, 2022**

| Name of Individual or Number in Group | Year | Plan Name | Number of Years Credited Service | Actuarial Present Value of Accumulated Benefits | Payments During 2022 |
|---|---|---|---|---|---|
| **CEO:** | | | | | |
| Paul B. Franklin, Sr. | 2022 | AgFirst Retirement Plan | 33 | $ 2,820,227 | $ – |
| | | | | $ 2,820,227 | $ – |
| **Senior Officers and Highly Compensated Employees:** | | | | | |
| 5 employees, excluding the CEO | 2022 | AgFirst Retirement Plan | 25* | $ 4,653,184 | $ – |
| | | | | $ 4,653,184 | $ – |

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

Senior officers may also participate in a 401(k) savings plan, with the level of Association matching contributions determined by date of employment. For officers employed before January 1, 2003, the Association matches employee contributions 50 percent up to 6 percent of salary. For those hired after December 31, 2002, the Association matches employee contributions 100 percent up to 6 percent of salary. Various investment options are available for these funds, and vesting is immediate.

Market-based retirement and tax advantaged savings plans for senior officers are critical components to a competitive overall compensation plan. Such a plan is necessary for the attraction and retention of professionals capable of effectively implementing the Association's strategic and annual business plans. Association financial risk is mitigated by adjusting provisions when necessary to control costs and remain competitive, such as was done for employees hired after December 31, 2002, and subsequent changes to the defined contribution retirement plan and 401(k) savings plan.

Senior officers participate in various other benefits which are also offered to all employees, such as: medical insurance; annual, holiday and sick leave; life and disability insurance; and, milestone service awards. Additionally, senior officers are reimbursed for out-of-pocket business travel, lodging and subsistence costs. A copy of the reimbursement policy is available upon request.

While the Association had record income in 2022, a significant portion of the earnings were from special distributions from AgFirst and not included in core earnings. Virtually all business plan objectives and goals were met or exceeded and the profit sharing component of the incentive plan triggered a payout at the top of the range. The individual and team performance of the CEO and other senior officers were consistent with the level of the incentive payments and with their overall compensation.

**Directors**

The following chart details the year the director began serving on the board, the current term of expiration, and total cash compensation paid:

| DIRECTOR | ORIGINAL YEAR OF ELECTION OR APPOINTMENT | CURRENT TERM EXPIRATION | TOTAL COMP. PAID DURING 2022 |
|---|---|---|---|
| A. Kevin Monahan | 2011 | 2023 | $10,650 |
| ***Board Chair*** | | | |
| Jennifer U. Cuthbertson | 2007 | 2025 | 11,700 |
| ***Vice Chair of the Board*** | | | |
| John E. Bickford* | 2014 | 2026 | 12,000 |
| *Appointed Stockholder Director* | | | |
| Benjamin D. Cole | 2022 | 2023 | 5,400 |
| R. Bertsch Cox | 2017 | 2025 | 12,750 |
| *Appointed Director* | | | |
| Clarke E. Fox | 1997 | 2025 | 13,650 |
| Craig H. Geise | 2022 | 2026 | 5,100 |
| Jeffrey W. Griffith | 2014 | 2024 | 8,400 |
| William T. Henley IV | 2020 | 2024 | 9,450 |
| Hugh S. Jones | 2003 | 2025 | 15,600 |
| Robert M. Jones** | 2013 | 2025 | 3,050 |
| Donna H. Kerr | 2022 | 2026 | 5,400 |
| L. Wayne Kirby*** | 2005 | 2024 | 1,350 |
| Frankie R. Large | 2017 | 2023 | 21,450 |
| John N. Mills, Jr. | 1996 | 2023 | 10,800 |
| Paul W. Rogers, Jr. | 1988 | 2022 | 9,000 |
| Paul W. Rogers, III | 2022 | 2026 | 5,400 |
| Steven H. Walter | 2018 | 2022 | 4,800 |
| Robert R. Womack | 2014 | 2026 | 8,400 |
| | | | $174,350 |

** John E. Bickford also previously served from 2005-2013.*
***Robert M. Jones, deceased May 15, 2022*
****L. Wayne Kirby, deceased April 4, 2022*

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

***Mr. A. Kevin Monahan,*** Chair of the Board and Chair of the Compensation, Credit Review, and Executive Committees, is a row crop, beef cattle, and timber farmer. He is owner of Monahan Farms, LLC, Bowling Green Farms, LLC, and partner in Springhill Farms Partnership. Mr. Monahan also serves on the Wetlands board of Surry County, Virginia (reviews wetlands activity), and as a director of the Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education).

***Mrs. Jennifer U. Cuthbertson,*** Vice Chair of the Board and Chair of the Governance Committee, is a watermelon, pumpkin, goat, cattle, wheat, corn, soybean, timber, and hay farmer, and a tax advisor for H&R Block. Mrs. Cuthbertson was a business analyst for Southern States Cooperative (agricultural supply cooperative) until May 2009 and serves as a seasonal customer service representative for FERIDIES (retail sales and promotion of Virginia peanuts). She works part-time as a Southampton County 4-H assistant.

***Mr. John E. Bickford*** is a consulting forester involved in timber management, timber sales, and timber evaluations for non-industrial landowners. He owns Bickford Timber and Land Management, Inc., a timber consulting and management business. He also serves as a licensed real estate agent for Cox & Company Real Estate and Insurance and sits on the board of Bickford Family Lands, LLC. He is chair of the Buckingham County Planning Commission.

***Benjamin Cole*** is owner of Cole Timberland Management, LLC and is a forestry consultant. He serves on the Virginia Forestry Board of Directors (forestry promotion) and is secretary and treasurer for the R. E. Lee Chapter of the Society of American Foresters (forestry education and promotion). He serves as the treasurer of the Appomattox County Farm Bureau (agriculture insurance, service , and lobbying organization and is a member of the Association of Consulting Foresters. He is also a row crop farmer producing corn and soybeans on 550 acres.

***Mr. R. Bertsch Cox,*** Chair of the Audit Committee, is the Chief Financial Officer/CPA and shareholder for James River Equipment (equipment dealer). He currently serves on the AgFirst Farm Credit Bank/Farm Credit Bank of Texas Plan Sponsor Committee. He previously served on the board of Virginia Foundation for Agriculture in the Classroom through July 2022 (provides youth agriculture education).

***Mr. Clarke E. Fox*** serves as president of Foxhill Farms, Inc., a peanut, cotton, corn, soybean, watermelon, and timber farm. He is also partner in Southampton Office Building.

***Craig H. Geise*** is a Certified Public Accountant at the firm of Dehnert, Clarke & Co., PC (tax and accounting firm). He is the sole proprietor of Giese Farms, a corn, soybean, rye, and timber farm. He serves as a director of the Northern Neck Farm Museum (regional agriculture history museum), director of the Northumberland-Lancaster Farm Bureau (agriculture insurance, service, and lobbying organization) and as chair of the Virginia Soybean Checkoff Board (soybean promotion). He is a member of the Lancaster County Board of Supervisors.

***Mr. Jeffrey W. Griffith*** is a grain, hay, and vegetable farmer. He serves as a director of the Anne Arundel County Farm Bureau (agriculture insurance, service, and lobbying organization). He is a member of Future Farmers of America Alumni (promoting FFA) and the Lothian Ruritan (community service organization).

***Mr. William T. Henley, IV*** is a full-time corn, wheat, soybeans, barley, and food grade soybean farmer and partner in MTG Partners, LLC. He is also a partner in Poorhouse Property, LLC, which owns farm and timberland. He is a board member and vice president of the King and Queen County Farm Bureau (agriculture insurance, service and lobbying organization), vice chair of Virginia Grain Producers (promotion and marketing of grain) and board member of the Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education).

***Mr. Hugh S. Jones*** is president, majority owner, and operator of Richlands Dairy Farm, Inc. and a shareholder in Richlands Creamery, LLC. Mr. Jones also serves as a director and member of the steering committee of the Virginia Tech Southern Virginia Research Station (agricultural research) and as a director of the Nottoway Planning Commission (county planning).

***Mr. Robert M. Jones*** was the owner of Poor House Dairy Farm. Mr. Jones also served as a director of Farmers' Cooperative (agricultural production products), a director of Cooperative Milk Producers (milk marketing), a board member of Prince Edward County Board of Supervisors, and a board member of Prince Edward County Planning Commission. He served as a director of Colonial Farm Credit until May 15, 2022 (death).

***Donna H. Kerr*** is secretary and treasurer of Ameva Farm, Inc., a dairy and grain farm. She also works as a general ledger accountant for Hillphoenix (commercial refrigeration company). She serves as treasurer for Mattoax Presbyterian Church.

***Mr. L. Wayne Kirby*** was a row crop and hay farmer and owner of Creamfield Farm, LLC, and a commissioned agent for Helena Chemical Company (agricultural chemical sales and consultation). Mr. Kirby served as a director of the Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education), the Virginia Grain Producers Association, Inc. (promotion and marketing of grain), and the Virginia Agribusiness Council (industry lobbying organization), and served on the Virginia Board of Agriculture and Consumer Services (promotes Virginia agriculture interests). He served as a director of Colonial Farm Credit until April 4, 2022 (death).

***Mr. Frankie R. Large*** is an owner/operator of Cherry Hill Farm (cow/calf operation) and a contract hog grower for Smithfield Foods. He serves as vice-president of Buckingham County Farm Bureau (agriculture insurance, service, and lobbying organization), and as a member of USDA Farm Service Agency County committee (liaison between the farm community and the U.S. Department of Agriculture).

***Mr. John N. Mills, Jr.*** is a partner in John N. Mills & Sons family farm business (growing and marketing corn, wheat, barley, soybean, and beef cattle). He serves as a director of the Virginia Identity Preserved Grains (small grain promotion and marketing) and the King William County Farm Bureau (agriculture insurance, service, and lobbying organization). He is also a partner in H&F LLC, which is a partner in York River Mitigation Bank (wetlands mitigation development).

***Mr. Paul W. Rogers, Jr.*** is a partner of Rogers Farms Partnership, a cotton, grain, timber, and peanut farm and owner of Paul W. Rogers, Jr., LLC. He served as a director of Colonial Farm Credit until September 2022 (retirement).

***Paul W. Rogers, III*** is a partner of Rogers Farms Partnership, a cotton, grain, timber, and peanut farm. He is chair of the National Peanut Board (peanut promotion and marketing) and was producer delegate for the National Cotton Council in 2022 (cotton promotion and marketing). He serves as director for the Virginia Cotton Growers Association (cotton promotion and marketing), Virginia Farm Bureau Cotton Advisory Board (advises on issues concerning cotton), Surry County Farm Bureau (agriculture insurance, service, and lobbying organization), Southern States Tidewater Petroleum Cooperative (energy provider), and Wakefield Sportsman Club (sports organization).

***Mr. Steven H. Walter*** is an owner/operator of H&S Farms LLC, a soybean, wheat, and, barley farm and president of Walter Greenhouses, Inc. (vegetables and greenhouse plants). He is also a seasonal worker for Suburban Propane (delivers propane). He serves as president and director of Charles County Farm Bureau (agriculture insurance, service, and lobbying organization), director of Maryland Farm Bureau Political Action Committee, director of the Maryland Soybean Board (promoting soybean use), Maryland Farm Bureau representative on Southern Maryland Ag Development Commission, and member of the Charles County Extension Advisory Committee. He served as a director of Colonial Farm Credit until September 2022 (election).

***Mr. Robert R. Womack*** is owner and operator of Woodville Farm, Inc., a poultry, beef cattle, and row crop farm, and co-owner of Robert & John, LLC. He is vice president of Buckingham Cattleman Association (breed promotion and marketing) and a director of Farmers' Cooperative (agricultural production products).

In accordance with board policy, the Association pays directors honoraria ranging from $200 to $750, for attendance at meetings, committee meetings, conference call meetings, or special assignments. Directors are paid a monthly retainer fee of $200, except for the chair of the board who receives $375 and the chair of the Audit, Legislative, and Governance committees who receive $225. Total compensation paid to directors as a group was $174,350 for 2022. No director received more than $5,000 in non-cash compensation during the year.

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

| | Days Served | | | |
|---|---|---|---|---|
| **Name of Director** | **Regular Board Meetings** | **Committee Meetings** | **Committees*** | **Committee Compensation ($)** |
| A. Kevin Monahan | 6 | 1 | Compensation | $750 |
| ***Board Chair*** | | | | |
| Jennifer U. Cuthbertson | 6 | 4 | Audit | $3,000 |
| ***Vice Chair of the Board*** | | 1 | Compensation | $750 |
| | | 2 | Governance | $1,500 |
| John E Bickford | 5 | 1 | Compensation | $750 |
| *Appointed Stockholder Director* | | 1 | Governance | $750 |
| | | 3 | Other Activities | $4,350 |
| Benjamin D. Cole | 2 | 2 | Other Activities | $3,300 |
| R. Bertsch Cox | 6 | 4 | Audit | $3,000 |
| *Appointed Director* | | 1 | Compensation | $750 |
| | | 2 | Other Activities | $2,550 |
| Clarke E. Fox | 6 | 3 | Audit | $2,250 |
| | | 1 | Compensation | $750 |
| | | 3 | Other Activities | $2,850 |
| Craig H. Geise | 2 | 3 | Other Activities | $3,000 |
| Jeffery W. Griffith | 6 | 2 | Governance | $1,500 |
| William T. Henley, IV | 6 | 4 | Other Activities | $2,550 |
| Hugh S. Jones | 6 | 4 | Audit | $3,000 |
| | | 1 | Governance | $750 |
| | | 3 | Other Activities | $4,350 |
| Robert M. Jones** | 2 | 1 | Audit | $750 |
| Donna H. Kerr | 2 | 3 | Other Activities | $3,300 |
| L. Wayne Kirby*** | 1 | – | | – |
| Frankie R. Large | 6 | 4 | Audit | $3,000 |
| | | 1 | Compensation | $750 |
| | | 2 | Governance | $1,500 |
| | | 6 | Other Activities | $8,100 |
| John N. Mills, Jr. | 6 | 4 | Audit | $3,000 |
| | | 2 | Other Activities | $300 |
| Paul W. Rogers, Jr. | 4 | 3 | Audit | $2,250 |
| | | 1 | Governance | $750 |
| | | 2 | Other Activities | $600 |
| Paul W. Rogers, III | 2 | 3 | Other Activities | $3,300 |
| Steven H. Walter | 3 | 1 | Governance | $750 |
| Robert R. Womack | 6 | 2 | Governance | $1,500 |
| | | | | $72,300 |

**Some committee meetings may be scheduled on the same day as other meetings, resulting in no additional compensation*
***Robert M. Jones, deceased May 15, 2022*
****L. Wayne Kirby, deceased April 4, 2022*

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking, 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 $52,269 for 2022, $21,740 for 2021, and $25,112 for 2020.

**Transactions with Senior Officers and Directors**

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

**Transactions Other Than Loans**

There have been no transactions that occurred at any time during the year ended December 31, 2022 or in aggregate, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which exceed $5,000. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2022.

**Involvement in Certain Legal Proceedings**

There were no other 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, 2022 were as follows:

| | 2022 |
|---|---|
| ***Independent Auditors*** | |
| PricewaterhouseCoopers LLP | |
| Audit services | $ 90,050 |
| Total | $ 90,050 |

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 9, 2023 and the report of management, which appear in this Annual Report are incorporated herein by reference. Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling (804) 746-4581, writing Diane Fowlkes, Chief Financial Officer, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111, or accessing the website, ***www.colonialfarmcredit.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. 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 and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report, which is available on the Bank's website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the 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 Colonial 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 2022, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from Colonial Farm Credit, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2022. The foregoing report is provided by the following independent directors, who constitute the Committee:

R. Bertsch Cox
Chair of the Audit Committee

**Members of Audit Committee**

Jennifer U. Cuthbertson
Clarke E. Fox
Craig H. Giese
Donna H. Kerr
Hugh S. Jones
Frankie R. Large
John N. Mills, Jr.
Paul W. Rogers, III

March 9, 2023

## Report of Independent Auditors

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

### *Opinion*

We have audited the accompanying consolidated financial statements of Colonial Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2022, 2021 and 2020, and the related consolidated statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

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

### *Basis for Opinion*

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

### *Responsibilities of Management for the Consolidated Financial Statements*

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

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

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

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

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

***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2022 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 9, 2023

# Consolidated Balance Sheets

| *(dollars in thousands)* | December 31, 2022 | 2021 | 2020 |
|---|---|---|---|
| **Assets** | | | |
| Cash | **$ 86** | $ 44 | $ 157 |
| Loans | **773,453** | 751,079 | 722,734 |
| Allowance for loan losses | **(698)** | (2,625) | (2,596) |
| Net loans | **772,755** | 748,454 | 720,138 |
| Loans held for sale | **44** | 388 | — |
| Accrued interest receivable | **5,817** | 4,936 | 5,461 |
| Equity investments in other Farm Credit institutions | **9,108** | 6,151 | 6,616 |
| Premises and equipment, net | **1,881** | 1,835 | 1,859 |
| Accounts receivable | **4,373** | 11,381 | 9,865 |
| Other assets | **1,075** | 1,177 | 1,140 |
| Total assets | **$ 795,139** | $ 774,366 | $ 745,236 |
| **Liabilities** | | | |
| Notes payable to AgFirst Farm Credit Bank | **$ 574,936** | $ 556,606 | $ 529,440 |
| Accrued interest payable | **1,677** | 1,187 | 1,179 |
| Patronage refunds payable | **13,246** | 18,714 | 18,057 |
| Accounts payable | **1,384** | 974 | 1,230 |
| Advanced conditional payments | **6** | — | — |
| Other liabilities | **3,427** | 3,576 | 4,581 |
| Total liabilities | **594,676** | 581,057 | 554,487 |
| Commitments and contingencies (Note 11) | | | |
| **Members' Equity** | | | |
| Capital stock and participation certificates | **5,631** | 5,699 | 5,520 |
| Unallocated retained earnings | **194,812** | 187,951 | 185,679 |
| Accumulated other comprehensive income (loss) | **20** | (341) | (450) |
| Total members' equity | **200,463** | 193,309 | 190,749 |
| Total liabilities and members' equity | **$ 795,139** | $ 774,366 | $ 745,236 |

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

# Consolidated Statements of Comprehensive Income

| *(dollars in thousands)* | For the year ended December 31, 2022 | 2021 | 2020 |
|---|---|---|---|
| **Interest Income** | | | |
| Loans | **$ 39,368** | $ 35,944 | $ 36,468 |
| **Interest Expense** | | | |
| Notes payable to AgFirst Farm Credit Bank | **16,404** | 13,699 | 14,576 |
| Net interest income | **22,964** | 22,245 | 21,892 |
| Provision for (reversal of) allowance for loan losses | **(1,949)** | (7) | 234 |
| Net interest income after provision for (reversal of) allowance for loan losses | **24,913** | 22,252 | 21,658 |
| **Noninterest Income** | | | |
| Loan fees | **443** | 780 | 469 |
| Fees for financially related services | **60** | 51 | 54 |
| Patronage refunds from other Farm Credit institutions | **7,390** | 11,241 | 9,701 |
| Gains (losses) on sales of rural home loans, net | **275** | 548 | 681 |
| Gains (losses) on sales of premises and equipment, net | **85** | (1) | 39 |
| Gains (losses) on other transactions | **99** | 93 | 25 |
| Insurance Fund refunds | **—** | — | 121 |
| Other noninterest income | **286** | 234 | 217 |
| Total noninterest income | **8,638** | 12,946 | 11,307 |
| **Noninterest Expense** | | | |
| Salaries and employee benefits | **9,284** | 10,578 | 9,480 |
| Occupancy and equipment | **536** | 522 | 564 |
| Insurance Fund premiums | **1,109** | 836 | 475 |
| Purchased services | **560** | 561 | 554 |
| Data processing | **170** | 179 | 108 |
| Other operating expenses | **2,039** | 1,757 | 1,681 |
| (Gains) losses on other property owned, net | **—** | — | (32) |
| Total noninterest expense | **13,698** | 14,433 | 12,830 |
| Income before income taxes | **19,853** | 20,765 | 20,135 |
| Provision (benefit) for income taxes | **(8)** | 25 | 3 |
| **Net income** | **$ 19,861** | $ 20,740 | $ 20,132 |
| **Other comprehensive income net of tax** | | | |
| Employee benefit plans adjustments | **361** | 109 | (93) |
| **Comprehensive income** | **$ 20,222** | $ 20,849 | $ 20,039 |

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

# Consolidated Statements of Changes in Members' Equity

| *(dollars in thousands)* | Capital Stock and Participation Certificates | Unallocated Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|---|---|---|---|---|
| Balance at December 31, 2019 | $ 5,238 | $ 183,461 | $ (357) | $ 188,342 |
| Comprehensive income | | 20,132 | (93) | 20,039 |
| Capital stock/participation certificates issued/(retired), net | 282 | | | 282 |
| Patronage distribution | | | | |
| Cash | | (17,914) | | (17,914) |
| Balance at December 31, 2020 | $ 5,520 | $ 185,679 | $ (450) | $ 190,749 |
| Comprehensive income | | 20,740 | 109 | 20,849 |
| Capital stock/participation certificates issued/(retired), net | 179 | | | 179 |
| Patronage distribution | | | | |
| Cash | | (18,466) | | (18,466) |
| Patronage distribution adjustment | | (2) | | (2) |
| Balance at December 31, 2021 | $ 5,699 | $ 187,951 | $ (341) | $ 193,309 |
| **Comprehensive income** | | **19,861** | **361** | **20,222** |
| **Capital stock/participation certificates issued/(retired), net** | **(68)** | | | **(68)** |
| **Patronage distribution** | | | | |
| **Cash** | | **(13,000)** | | **(13,000)** |
| **Balance at December 31, 2022** | **$ 5,631** | **$ 194,812** | **$ 20** | **$ 200,463** |

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

# Consolidated Statements of Cash Flows

| *(dollars in thousands)* | For the year ended December 31, 2022 | 2021 | 2020 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | **$ 19,861** | $ 20,740 | $ 20,132 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation on premises and equipment | **280** | 265 | 269 |
| Amortization (accretion) of net deferred loan costs (fees) | **509** | 334 | 287 |
| Provision for (reversal of) allowance for loan losses | **(1,949)** | (7) | 234 |
| (Gains) losses on other property owned | **—** | — | (52) |
| (Gains) losses on sales of premises and equipment, net | **(85)** | 1 | (39) |
| (Gains) losses on sales of rural home loans, net | **(275)** | (548) | (681) |
| (Gains) losses on other transactions | **(99)** | (93) | (25) |
| Changes in operating assets and liabilities: | | | |
| Origination of loans held for sale | **(22,447)** | (35,301) | (43,609) |
| Proceeds from sales of loans held for sale, net | **23,066** | 35,461 | 44,600 |
| (Increase) decrease in accrued interest receivable | **(881)** | 525 | 363 |
| (Increase) decrease in accounts receivable | **7,008** | (1,516) | (3,352) |
| (Increase) decrease in other assets | **102** | (37) | 33 |
| Increase (decrease) in accrued interest payable | **490** | 8 | (183) |
| Increase (decrease) in accounts payable | **410** | (256) | 683 |
| Increase (decrease) in other liabilities | **311** | (803) | (18) |
| Total adjustments | **6,440** | (1,967) | (1,490) |
| Net cash provided by (used in) operating activities | **26,301** | 18,773 | 18,642 |
| **Cash flows from investing activities:** | | | |
| Net (increase) decrease in loans | **(22,861)** | (28,643) | (45,288) |
| (Increase) decrease in equity investments in other Farm Credit institutions | **(2,957)** | 465 | 450 |
| Purchases of premises and equipment | **(326)** | (242) | (199) |
| Proceeds from sales of premises and equipment | **85** | — | 45 |
| Proceeds from sales of other property owned | **—** | — | 52 |
| Net cash provided by (used in) investing activities | **(26,059)** | (28,420) | (44,940) |
| **Cash flows from financing activities:** | | | |
| Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net | **18,330** | 27,166 | 40,054 |
| Net increase (decrease) in advanced conditional payments | **6** | — | — |
| Capital stock and participation certificates issued/(retired), net | **(68)** | 179 | 282 |
| Patronage refunds and dividends paid | **(18,468)** | (17,811) | (14,431) |
| Net cash provided by (used in) financing activities | **(200)** | 9,534 | 25,905 |
| Net increase (decrease) in cash | **42** | (113) | (393) |
| Cash, beginning of period | **44** | 157 | 550 |
| Cash, end of period | **$ 86** | $ 44 | $ 157 |
| | | | |
| **Supplemental schedule of non-cash activities:** | | | |
| Financed sales of other property owned | **$ —** | $ — | $ 535 |
| Estimated cash dividends or patronage distributions declared or payable | **13,000** | 18,466 | 17,914 |
| Employee benefit plans adjustments (Note 9) | **(361)** | (109) | 93 |
| | | | |
| **Supplemental information:** | | | |
| Interest paid | **$ 15,913** | $ 13,691 | $ 14,759 |
| Taxes (refunded) paid, net | **—** | 95 | 8 |

*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:** Colonial Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Amelia, Amherst, Appomattox, Brunswick, Buckingham, Campbell, Caroline, Charles City, Charlotte, Chesterfield, Cumberland, Dinwiddie, Essex, Fluvanna, Gloucester, Goochland, Greensville, Hanover, Henrico, Isle of Wight, King and Queen, King George, King William, James City, Lancaster, Louisa, Lunenburg, Mathews, Mecklenburg, Middlesex, New Kent, Northumberland, Nottoway, Powhatan, Prince Edward, Prince George, Richmond, Southampton, Surry, Sussex, Westmoreland, York, and the cities of Chesapeake, Newport News, Suffolk and Virginia Beach in the state of Virginia and the counties of Anne Arundel, Calvert, Charles, Prince George's and Saint Mary's in the state of Maryland.

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

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

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

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

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

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

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

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

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

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

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

**Note 2 — Summary of Significant Accounting Policies**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Equity Investments in Other Farm Credit System Institutions***

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

***Other Investments***

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

***Investment Income***

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

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

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

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

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

Additional information may be found in Note 9.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

   Additional information may be found in Note 8.

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

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

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

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

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

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

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

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

   ***Lessee***
   Contracts entered into are evaluated at inception to determine if they contain a lease. Assets and liabilities are recognized on the Consolidated Balance Sheets to reflect the rights and obligations created by any contracts that do.

These contracts are then classified as either operating or finance leases.

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

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

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

***Lessor***

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

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

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

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

**Note 3 — Loans and Allowance for Loan Losses**

For a description of the Association's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2 subsection B above.
Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the Board of Directors.

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.

- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.

A summary of loans outstanding at period end follows:

| | December 31, 2022 | December 31, 2021 | December 31, 2020 |
|---|---|---|---|
| Real estate mortgage | $ 523,195 | $ 514,107 | $ 478,540 |
| Production and intermediate-term | 164,429 | 159,690 | 164,816 |
| Loans to cooperatives | 1,991 | 4,822 | 4,636 |
| Processing and marketing | 28,552 | 19,761 | 20,120 |
| Farm-related business | 5,631 | 4,521 | 5,030 |
| Communication | 3,279 | 211 | – |
| Power and water/waste disposal | 5,784 | 290 | 720 |
| Rural residential real estate | 36,580 | 44,371 | 45,565 |
| International | 3,917 | 3,306 | 3,307 |
| Lease receivables | 95 | – | – |
| Total loans | $ 773,453 | $ 751,079 | $ 722,734 |

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

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

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

| December 31, 2022 | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | $ 6,638 | $ – | $ – | $ – | $ – | $ – | $ 6,638 | $ – |
| Production and intermediate-term | 19,010 | – | 4,372 | – | – | – | 23,382 | – |
| Loans to cooperatives | 606 | – | 1,394 | – | – | – | 2,000 | – |
| Processing and marketing | 25,835 | – | 1,726 | – | – | – | 27,561 | – |
| Farm-related business | 321 | – | – | – | – | – | 321 | – |
| Communication | 3,287 | – | – | – | – | – | 3,287 | – |
| Power and water/waste disposal | 5,804 | – | – | – | – | – | 5,804 | – |
| International | 3,922 | – | – | – | – | – | 3,922 | – |
| Lease receivables | – | – | 95 | – | – | – | 95 | – |
| Total | $ 65,423 | $ – | $ 7,587 | $ – | $ – | $ – | $ 73,010 | $ – |

| | 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 | $ 8,889 | $ – | $ – | $ – | $ – | $ – | $ 8,889 | $ – |
| Production and intermediate-term | 14,526 | 277 | 4,789 | – | – | – | 19,315 | 277 |
| Loans to cooperatives | 3,851 | – | 982 | – | – | – | 4,833 | – |
| Processing and marketing | 14,904 | – | 2,707 | – | – | – | 17,611 | – |
| Farm-related business | 321 | – | – | – | – | – | 321 | – |
| Communication | 215 | – | – | – | – | – | 215 | – |
| Power and water/waste disposal | 296 | – | – | – | – | – | 296 | – |
| International | 3,311 | – | – | – | – | – | 3,311 | – |
| Total | $ 46,313 | $ 277 | $ 8,478 | $ – | $ – | $ – | $ 54,791 | $ 277 |

| | December 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | $ 8,567 | $ – | $ – | $ – | $ – | $ – | $ 8,567 | $ – |
| Production and intermediate-term | 13,272 | 773 | 3,620 | – | – | – | 16,892 | 773 |
| Loans to cooperatives | 3,791 | – | 852 | – | – | – | 4,643 | – |
| Processing and marketing | 14,928 | 41 | 2,473 | – | – | – | 17,401 | 41 |
| Farm-related business | 321 | 72 | – | – | – | – | 321 | 72 |
| Power and water/waste disposal | 727 | – | – | – | – | – | 727 | – |
| International | 3,311 | – | – | – | – | – | 3,311 | – |
| Total | $ 44,917 | $ 886 | $ 6,945 | $ – | $ – | $ – | $ 51,862 | $ 886 |

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

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

| | December 31, 2022 | 2021 | 2020 |
|---|---|---|---|
| **Real estate mortgage:** | | | |
| Acceptable | 98.91% | 98.13% | 97.58% |
| OAEM | 0.61 | 1.31 | 1.56 |
| Substandard/doubtful/loss | 0.48 | 0.56 | 0.86 |
| | 100.00% | 100.00% | 100.00% |
| **Production and intermediate-term:** | | | |
| Acceptable | 98.70% | 96.59% | 96.84% |
| OAEM | 0.77 | 3.05 | 2.88 |
| Substandard/doubtful/loss | 0.53 | 0.36 | 0.28 |
| | 100.00% | 100.00% | 100.00% |
| **Loans to cooperatives:** | | | |
| Acceptable | 100.00% | 100.00% | 100.00% |
| OAEM | – | – | – |
| Substandard/doubtful/loss | – | – | – |
| | 100.00% | 100.00% | 100.00% |
| **Processing and marketing:** | | | |
| Acceptable | 100.00% | 100.00% | 99.78% |
| OAEM | – | – | – |
| Substandard/doubtful/loss | – | – | 0.22 |
| | 100.00% | 100.00% | 100.00% |
| **Farm-related business:** | | | |
| Acceptable | 100.00% | 100.00% | 98.85% |
| OAEM | – | – | 1.15 |
| Substandard/doubtful/loss | – | – | – |
| | 100.00% | 100.00% | 100.00% |

| | December 31, 2022 | 2021 | 2020 |
|---|---|---|---|
| **Communication:** | | | |
| Acceptable | 100.00% | 100.00% | 100.00% |
| OAEM | – | – | – |
| Substandard/doubtful/loss | – | – | – |
| | 100.00% | 100.00% | 100.00% |
| **Power and water/waste disposal:** | | | |
| Acceptable | 100.00% | 100.00% | 100.00% |
| OAEM | – | – | – |
| Substandard/doubtful/loss | – | – | – |
| | 100.00% | 100.00% | 100.00% |
| **Rural residential real estate:** | | | |
| Acceptable | 99.19% | 99.02% | 98.81% |
| OAEM | 0.57 | 0.59 | 0.71 |
| Substandard/doubtful/loss | 0.24 | 0.39 | 0.48 |
| | 100.00% | 100.00% | 100.00% |
| **International:** | | | |
| Acceptable | 100.00% | –% | –% |
| OAEM | – | – | – |
| Substandard/doubtful/loss | – | – | – |
| | 100.00% | –% | –% |
| **Lease receivables:** | | | |
| Acceptable | 100.00% | 100.00% | 100.00% |
| OAEM | – | – | – |
| Substandard/doubtful/loss | – | – | – |
| | 100.00% | 100.00% | 100.00% |
| **Total loans:** | | | |
| Acceptable | 98.94% | 97.94% | 97.59% |
| OAEM | 0.61 | 1.58 | 1.74 |
| Substandard/doubtful/loss | 0.45 | 0.48 | 0.67 |
| | 100.00% | 100.00% | 100.00% |

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

| | December 31, 2022 | | | | |
|---|---|---|---|---|---|
| | 30 Through 89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans |
| Real estate mortgage | $ 2,436 | $ 294 | $ 2,730 | $ 524,014 | $ 526,744 |
| Production and intermediate-term | 1,726 | 38 | 1,764 | 164,571 | 166,335 |
| Loans to cooperatives | – | – | – | 1,999 | 1,999 |
| Processing and marketing | – | – | – | 28,657 | 28,657 |
| Farm-related business | – | – | – | 5,658 | 5,658 |
| Communication | – | – | – | 3,280 | 3,280 |
| Power and water/waste disposal | – | – | – | 5,791 | 5,791 |
| Rural residential real estate | 66 | – | 66 | 36,688 | 36,754 |
| International | – | – | – | 3,956 | 3,956 |
| Lease receivables | – | – | – | 96 | 96 |
| Total | $ 4,228 | $ 332 | $ 4,560 | $ 774,710 | $ 779,270 |

| | 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 | $ 3,800 | $ 299 | $ 4,099 | $ 513,300 | $ 517,399 |
| Production and intermediate-term | 817 | 45 | 862 | 160,236 | 161,098 |
| Loans to cooperatives | – | – | – | 4,824 | 4,824 |
| Processing and marketing | – | – | – | 19,781 | 19,781 |
| Farm-related business | – | – | – | 4,542 | 4,542 |
| Communication | – | – | – | 211 | 211 |
| Power and water/waste disposal | – | – | – | 290 | 290 |
| Rural residential real estate | – | – | – | 44,556 | 44,556 |
| International | – | – | – | 3,314 | 3,314 |
| Total | $ 4,617 | $ 344 | $ 4,961 | $ 751,054 | $ 756,015 |

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | 30 Through 89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans |
| Real estate mortgage | $ 3,353 | $ 432 | $ 3,785 | $ 478,208 | $ 481,993 |
| Production and intermediate-term | 2,938 | 159 | 3,097 | 163,486 | 166,583 |
| Loans to cooperatives | – | – | – | 4,637 | 4,637 |
| Processing and marketing | – | – | – | 20,147 | 20,147 |
| Farm-related business | – | – | – | 5,046 | 5,046 |
| Power and water/waste disposal | – | – | – | 721 | 721 |
| Rural residential real estate | 323 | – | 323 | 45,430 | 45,753 |
| International | – | – | – | 3,315 | 3,315 |
| Total | $ 6,614 | $ 591 | $ 7,205 | $ 720,990 | $ 728,195 |

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

| | December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| **Nonaccrual loans:** | | | |
| Real estate mortgage | $ 830 | $ 603 | $ 698 |
| Production and intermediate-term | 269 | 344 | 236 |
| Processing and marketing | – | – | 46 |
| Rural residential real estate | 45 | 85 | 142 |
| Total | $ 1,144 | $ 1,032 | $ 1,122 |
| **Accruing restructured loans:** | | | |
| Real estate mortgage | $ 273 | $ 332 | $ 366 |
| Rural residential real estate | – | 15 | 25 |
| Total | $ 273 | $ 347 | $ 391 |
| **Accruing loans 90 days or more past due:** | | | |
| Total | $ – | $ – | $ – |
| Total nonperforming loans | $ 1,417 | $ 1,379 | $ 1,513 |
| Other property owned | – | – | – |
| Total nonperforming assets | $ 1,417 | $ 1,379 | $ 1,513 |
| Nonaccrual loans as a percentage of total loans | 0.15% | 0.14% | 0.16% |
| Nonperforming assets as a percentage of total loans and other property owned | 0.18% | 0.18% | 0.21% |
| Nonperforming assets as a percentage of capital | 0.71% | 0.71% | 0.79% |

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

| | December 31, 2022 | December 31, 2021 | December 31, 2020 |
|---|---|---|---|
| **Impaired nonaccrual loans:** | | | |
| Current as to principal and interest | $ 180 | $ 689 | $ 431 |
| Past due | 964 | 343 | 691 |
| Total | $ 1,144 | $ 1,032 | $ 1,122 |
| **Impaired accrual loans:** | | | |
| Restructured | $ 273 | $ 347 | $ 391 |
| 90 days or more past due | – | – | – |
| Total | $ 273 | $ 347 | $ 391 |
| Total impaired loans | $ 1,417 | $ 1,379 | $ 1,513 |
| Additional commitments to lend | $ – | $ – | $ – |

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

| Impaired loans: | December 31, 2022 Recorded Investment | December 31, 2022 Unpaid Principal Balance | December 31, 2022 Related Allowance | Year Ended December 31, 2022 Average Impaired Loans | Year Ended December 31, 2022 Interest Income Recognized on Impaired Loans |
|---|---|---|---|---|---|
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ – | $ – | $ – | $ – | $ – |
| Production and intermediate-term | – | 7 | 4 | – | – |
| Rural residential real estate | – | – | – | – | – |
| Total | $ – | $ 7 | $ 4 | $ – | $ – |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 1,103 | $ 1,390 | $ – | $ 1,173 | $ 95 |
| Production and intermediate-term | 269 | 696 | – | 286 | 23 |
| Rural residential real estate | 45 | 111 | – | 48 | 4 |
| Total | $ 1,417 | $ 2,197 | $ – | $ 1,507 | $ 122 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 1,103 | $ 1,390 | $ – | $ 1,173 | $ 95 |
| Production and intermediate-term | 269 | 703 | 4 | 286 | 23 |
| Rural residential real estate | 45 | 111 | – | 48 | 4 |
| Total | $ 1,417 | $ 2,204 | $ 4 | $ 1,507 | $ 122 |

| Impaired loans: | December 31, 2021 Recorded Investment | December 31, 2021 Unpaid Principal Balance | December 31, 2021 Related Allowance | Year Ended December 31, 2021 Average Impaired Loans | Year Ended December 31, 2021 Interest Income Recognized on Impaired Loans |
|---|---|---|---|---|---|
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ – | $ – | $ – | $ – | $ – |
| Production and intermediate-term | 10 | 28 | 19 | 10 | 3 |
| Rural residential real estate | – | – | – | – | – |
| Total | $ 10 | $ 28 | $ 19 | $ 10 | $ 3 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 935 | $ 1,195 | $ – | $ 1,007 | $ 276 |
| Production and intermediate-term | 334 | 853 | – | 359 | 98 |
| Rural residential real estate | 100 | 167 | – | 108 | $ 29 |
| Total | $ 1,369 | $ 2,215 | $ – | $ 1,474 | 403 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 935 | $ 1,195 | $ – | $ 1,007 | $ 276 |
| Production and intermediate-term | 344 | 881 | 19 | 369 | 101 |
| Rural residential real estate | 100 | 167 | – | 108 | $ 29 |
| Total | $ 1,379 | $ 2,243 | $ 19 | $ 1,484 | 406 |

| Impaired loans: | December 31, 2020 Recorded Investment | Unpaid Principal Balance | Related Allowance | Year Ended December 31, 2020 Average Impaired Loans | Interest Income Recognized on Impaired Loans |
|---|---|---|---|---|---|
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ – | $ – | $ – | $ – | $ – |
| Production and intermediate-term | 163 | 261 | 38 | 226 | 50 |
| Processing and marketing | – | – | – | – | – |
| Rural residential real estate | – | – | – | – | – |
| Total | $ 163 | $ 261 | $ 38 | $ 226 | $ 50 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 1,064 | $ 1,558 | $ – | $ 1,480 | $ 327 |
| Production and intermediate-term | 73 | 813 | – | 103 | 22 |
| Processing and marketing | 46 | 64 | – | 64 | 14 |
| Rural residential real estate | 167 | 274 | – | 232 | 51 |
| Total | $ 1,350 | $ 2,709 | $ – | $ 1,879 | $ 414 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 1,064 | $ 1,558 | $ – | $ 1,480 | $ 327 |
| Production and intermediate-term | 236 | 1,074 | 38 | 329 | 72 |
| Processing and marketing | 46 | 64 | – | 64 | 14 |
| Rural residential real estate | 167 | 274 | – | 232 | 51 |
| Total | $ 1,513 | $ 2,970 | $ 38 | $ 2,105 | $ 464 |

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

| | Real Estate Mortgage | Production and Intermediate-term | Agribusiness* | Communication | Power and Water/Waste Disposal | Rural Residential Real Estate | International | Lease Receivables | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Activity related to the allowance for credit losses:** | | | | | | | | | |
| Balance at December 31, 2021 | $ 1,783 | $ 574 | $ 101 | $ 1 | $ 1 | $ 154 | $ 11 | $ – | $ 2,625 |
| Charge-offs | – | (21) | – | – | – | – | – | – | (21) |
| Recoveries | – | 43 | – | – | – | – | – | – | 43 |
| Provision for loan losses | (1,314) | (444) | (69) | 2 | 4 | (121) | (7) | – | (1,949) |
| Balance at December 31, 2022 | $ 469 | $ 152 | $ 32 | $ 3 | $ 5 | $ 33 | $ 4 | $ – | $ 698 |
| Balance at December 31, 2020 | $ 1,693 | $ 623 | $ 105 | $ – | $ 2 | $ 161 | $ 12 | $ – | $ 2,596 |
| Charge-offs | – | (29) | – | – | – | – | – | – | (29) |
| Recoveries | 19 | 46 | – | – | – | – | – | – | 65 |
| Provision for loan losses | 71 | (66) | (4) | 1 | (1) | (7) | (1) | – | (7) |
| Balance at December 31, 2021 | $ 1,783 | $ 574 | $ 101 | $ 1 | $ 1 | $ 154 | $ 11 | $ – | $ 2,625 |
| Balance at December 31, 2019 | $ 1,488 | $ 637 | $ 98 | $ 2 | $ 8 | $ 121 | $ 11 | $ – | $ 2,365 |
| Charge-offs | (1) | (58) | – | – | – | – | – | – | (59) |
| Recoveries | 31 | 25 | – | – | – | – | – | – | 56 |
| Provision for loan losses | 175 | 19 | 7 | (2) | (6) | 40 | 1 | – | 234 |
| Balance at December 31, 2020 | $ 1,693 | $ 623 | $ 105 | $ – | $ 2 | $ 161 | $ 12 | $ – | $ 2,596 |
| **Allowance on loans evaluated for impairment:** | | | | | | | | | |
| Individually | $ – | $ 4 | $ – | $ – | $ – | $ – | $ – | $ – | $ 4 |
| Collectively | 469 | 148 | 32 | 3 | 5 | 33 | 4 | – | 694 |
| Balance at December 31, 2022 | $ 469 | $ 152 | $ 32 | $ 3 | $ 5 | $ 33 | $ 4 | $ – | $ 698 |
| Individually | $ – | $ 19 | $ – | $ – | $ – | $ – | $ – | $ – | $ 19 |
| Collectively | 1,783 | 555 | 101 | 1 | 1 | 154 | 11 | – | 2,606 |
| Balance at December 31, 2021 | $ 1,783 | $ 574 | $ 101 | $ 1 | $ 1 | $ 154 | $ 11 | $ – | $ 2,625 |
| Individually | $ – | $ 38 | $ – | $ – | $ – | $ – | $ – | $ – | $ 38 |
| Collectively | 1,693 | 585 | 105 | – | 2 | 161 | 12 | – | 2,558 |
| Balance at December 31, 2020 | $ 1,693 | $ 623 | $ 105 | $ – | $ 2 | $ 161 | $ 12 | $ – | $ 2,596 |
| **Recorded investment in loans evaluated for impairment:** | | | | | | | | | |
| Individually | $ 1,103 | $ 269 | $ – | $ – | $ – | $ 45 | $ – | $ – | $ 1,417 |
| Collectively | 525,641 | 166,066 | 36,314 | 3,280 | 5,791 | 36,709 | 3,956 | 96 | 777,853 |
| Balance at December 31, 2022 | $ 526,744 | $ 166,335 | $ 36,314 | $ 3,280 | $ 5,791 | $ 36,754 | $ 3,956 | $ 96 | $ 779,270 |
| Individually | $ 935 | $ 344 | $ – | $ – | $ – | $ 100 | $ – | $ – | $ 1,379 |
| Collectively | 516,464 | 160,754 | 29,147 | 211 | 290 | 44,456 | 3,314 | – | 754,636 |
| Balance at December 31, 2021 | $ 517,399 | $ 161,098 | $ 29,147 | $ 211 | $ 290 | $ 44,556 | $ 3,314 | $ – | $ 756,015 |
| Individually | $ 1,064 | $ 236 | $ 46 | $ – | $ – | $ 167 | $ – | $ – | $ 1,513 |
| Collectively | 480,929 | 166,347 | 29,784 | – | 721 | 45,586 | 3,315 | – | 726,682 |
| Balance at December 31, 2020 | $ 481,993 | $ 166,583 | $ 29,830 | $ – | $ 721 | $ 45,753 | $ 3,315 | $ – | $ 728,195 |

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs that occurred during the year ended December 31, 2022.

| | Year Ended December 31, 2021 | | | | |
|---|---|---|---|---|---|
| **Outstanding Recorded Investment** | **Interest Concessions** | **Principal Concessions** | **Other Concessions** | **Total** | **Charge-offs** |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ – | $ 1 | $ – | $ 1 | |
| Production and intermediate-term | – | 210 | 3 | 213 | |
| Processing and marketing | – | 44 | – | 44 | |
| Total | $ – | $ 255 | $ 3 | $ 258 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ – | $ 1 | $ – | $ 1 | $ – |
| Production and intermediate-term | – | 324 | 3 | 327 | (94) |
| Processing and marketing | – | 44 | – | 44 | – |
| Total | $ – | $ 369 | $ 3 | $ 372 | $ (94) |

| | Year Ended December 31, 2020 | | | | |
|---|---|---|---|---|---|
| **Outstanding Recorded Investment** | **Interest Concessions** | **Principal Concessions** | **Other Concessions** | **Total** | **Charge-offs** |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ – | $ 133 | $ – | $ 133 | |
| Production and intermediate-term | – | – | 2 | 2 | |
| Processing and marketing | – | 98 | – | 98 | |
| Total | $ – | $ 231 | $ 2 | $ 233 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ – | $ 133 | $ – | $ 133 | $ – |
| Production and intermediate-term | – | – | 3 | 3 | – |
| Processing and marketing | – | 98 | – | 98 | – |
| Total | $ – | $ 231 | $ 3 | $ 234 | $ – |

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

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

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

| | Total TDRs | | | Nonaccrual TDRs | | |
|---|---|---|---|---|---|---|
| | December 31, | | | December 31, | | |
| | 2022 | 2021 | 2020 | 2022 | 2021 | 2020 |
| Real estate mortgage | $ 346 | $ 438 | $ 633 | $ 73 | $ 106 | $ 267 |
| Production and intermediate-term | 249 | 291 | 101 | 249 | 291 | 101 |
| Processing and marketing | – | – | 46 | – | – | 46 |
| Rural residential real estate | 45 | 69 | 87 | 45 | 54 | 62 |
| Total loans | $ 640 | $ 798 | $ 867 | $ 367 | $ 451 | $ 476 |
| Additional commitments to lend | $ – | $ – | $ – | | | |

**Note 4 — Investments**

***Equity Investments in Other Farm Credit Institutions***

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $8,624 for 2022, $5,695 for 2021 and $6,167 for 2020. The Association owned 2.26 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2022, net of any reciprocal investment. As of that date, the Bank's assets totaled $42.1 billion and shareholders' equity totaled $1.5 billion. The Bank's earnings were $412 million for 2022. In addition, the Association had investments of $484 related to other Farm Credit institutions at December 31, 2022.

**Note 5 — Premises and Equipment**

Premises and equipment consists of the following:

| | December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| Land | $ 427 | $ 427 | $ 427 |
| Buildings and improvements | 2,681 | 2,589 | 2,575 |
| Furniture and equipment | 2,446 | 2,369 | 2,300 |
| | 5,554 | 5,385 | 5,302 |
| Less: accumulated depreciation | 3,673 | 3,550 | 3,443 |
| Total | $ 1,881 | $ 1,835 | $ 1,859 |

**Note 6 — Debt**

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

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

The weighted average interest rates on the variable rate advances were 5.09 percent for LIBOR-based loans, 5.05 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 5.22 percent for Prime-based loans, and the weighted average remaining maturities were 2.6 years, 4.1 years, and 1.1 years, respectively, at December 31, 2022. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.12 percent, and the weighted average remaining maturity was 13.2 years at December 31, 2022. The weighted average interest rate on all interest-bearing notes payable was 3.49 percent and the weighted average remaining maturity was 11.2 years at December 31, 2022. Gross notes payable consists of approximately 18.00 percent variable rate and 82.00 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2022. 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. **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 B 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 $1 thousand or two percent of the loan amount, 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.

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

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

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

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

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

The following sets forth the regulatory capital ratios:

| Ratio | Minimum Requirement | Capital Conservation Buffer | Minimum Requirement including Capital Conservation Buffer | Capital Ratios as of December 31, 2022 | 2021 | 2020 |
|---|---|---|---|---|---|---|
| Risk-adjusted ratios: | | | | | | |
| CET1 Capital | 4.5% | 2.5% | 7.0% | 23.64% | 24.25% | 25.10% |
| Tier 1 Capital | 6.0% | 2.5% | 8.5% | 23.64% | 24.25% | 25.10% |
| Total Capital | 8.0% | 2.5% | 10.5% | 23.73% | 24.61% | 25.47% |
| Permanent Capital | 7.0% | 0.0% | 7.0% | 23.66% | 24.33% | 25.19% |
| Non-risk-adjusted ratios: | | | | | | |
| Tier 1 Leverage* | 4.0% | 1.0% | 5.0% | 25.51% | 25.97% | 26.80% |
| URE and UREE Leverage | 1.5% | 0.0% | 1.5% | 24.80% | 25.91% | 26.84% |

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

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

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

The Association had the following shares outstanding at December 31, 2022:

| Class | Protected | Shares Outstanding Number | Aggregate Par Value |
|---|---|---|---|
| C Common/Voting | No | 994,549 | $ 4,973 |
| Participation Certificates/Nonvoting | No | 131,692 | 658 |
| Total Capital Stock and Participation Certificates | | 1,126,241 | $ 5,631 |

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

*Retained Earnings*

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

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

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

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

*Dividends*

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Class C Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class C Preferred Stock for any fiscal year may not be less than the rate of dividend paid on Classes A, B, and D Common Stock or participation certificates for such year. The rate of dividends on Classes A, B, and D Common Stock and participation certificates shall be at the same rate per share.

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

*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*

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

*Impairment*

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

1. Classes A, B, and D Common Stock and Participation Certificates
2. Class C 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 should be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Class C Preferred Stock
2. Classes A, B, and D Common Stock and Participation Certificates
3. Holders of allocated retained earnings pro rata, until an amount equal to the total account has been distributed.

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

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

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| **Employee Benefit Plans:** | | | |
| Balance at beginning of period | $ (341) | $ (450) | $ (357) |
| Other comprehensive income before reclassifications | 280 | 21 | (150) |
| Amounts reclassified from AOCI | 81 | 88 | 57 |
| Net current period OCI | 361 | 109 | (93) |
| Balance at end of period | $ 20 | $ (341) | $ (450) |

| | Reclassifications Out of Accumulated Other Comprehensive Income (b) | | | |
|---|---|---|---|---|
| | For the Year Ended December 31, | | | |
| | 2022 | 2021 | 2020 | Income Statement Line Item |
| **Defined Benefit Pension Plans:** | | | | |
| Periodic pension costs | $ (81) | $ (88) | $ (57) | See Note 9. |
| Amounts reclassified | $ (81) | $ (88) | $ (57) | |

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

## Note 8 — Fair Value Measurement

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

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

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | Fair Value Measurement Using | | | Total Fair |
| | Level 1 | Level 2 | Level 3 | Value |
| **Recurring assets** | | | | |
| Assets held in trust funds | $ 772 | $ – | $ – | $ 772 |
| **Nonrecurring assets** | | | | |
| Impaired loans | $ – | $ – | $ – | $ – |
| Other property owned | $ – | $ – | $ – | $ – |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | Fair Value Measurement Using | | | Total Fair |
| | Level 1 | Level 2 | Level 3 | Value |
| **Recurring assets** | | | | |
| Assets held in trust funds | $ 875 | $ – | $ – | $ 875 |
| **Nonrecurring assets** | | | | |
| Impaired loans | $ – | $ – | $ – | $ – |
| Other property owned | $ – | $ – | $ – | $ – |

| | December 31, 2020 | | | |
|---|---|---|---|---|
| | Fair Value Measurement Using | | | Total Fair |
| | Level 1 | Level 2 | Level 3 | Value |
| **Recurring assets** | | | | |
| Assets held in trust funds | $ 886 | $ – | $ – | $ 886 |
| **Nonrecurring assets** | | | | |
| Impaired loans | $ – | $ – | $ 125 | $ 125 |
| Other property owned | $ – | $ – | $ – | $ – |

### Valuation Techniques

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

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

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

current market conditions, specific issues relating to the property and other matters, the assets are classified as Level 3.

**Note 9 — Employee Benefit Plans**

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

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

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

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

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were $1,213 for 2022, $2,381 for 2021, and $1,839 for 2020. At December 31, 2022, 2021, and 2020, the total liability balance for the FAP Plan was $32,568, $39,135, and $114,449, respectively. The FAP Plan was 95.81 percent, 96.17 percent, and 89.63 percent funded to the projected benefit obligation as of December 31, 2022, 2021, and 2020, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were $227 for 2022, $203 for 2021, and $188 for 2020. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $167,895, $209,599, and $219,990 at December 31, 2022, 2021, and 2020, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $464, $448, and $432 for the years ended December 31, 2022, 2021, and 2020, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2022, 2021, and 2020, $361, $109, and $(93), respectively, have been recognized as a net credit, a net credit, and a net debit to AOCI to reflect these elements.

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

The supplemental retirement plan is unfunded and had a projected benefit obligation of $696 and a net under-funded status of $696 at December 31, 2022. Expenses included in noninterest expenses were $124, $128, and $94 for 2022, 2021, and 2020, respectively. Assumptions used to determine the projected benefit obligation as of December 31, 2022 included a discount rate of 5.20 percent and a rate of compensation increase of 3.00 percent.

**Note 10 — Related Party Transactions**

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

Total loans to such persons at December 31, 2022 amounted to $13,157. During 2022, $5,511 of new loans were made and repayments totaled $4,832. In the opinion of management, none of these loans outstanding at December 31, 2022 involved more than a normal risk of collectibility.

**Note 11 — Commitments and Contingencies**

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2022, $162,008 of commitments to extend credit and no commercial letters of credit were outstanding. A related reserve for unfunded commitments of $66 was included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2022, standby letters of credit outstanding totaled $570 with expiration dates ranging from January 1, 2023 to September 1, 2027. The maximum potential amount of future payments that may be required under these guarantees was $570.

**Note 12 — Income Taxes**

The provision (benefit) for income taxes follows:

| | Year Ended December 31, 2022 | 2021 | 2020 |
|---|---|---|---|
| Current: | | | |
| Federal | $ (5) | $ 19 | $ 2 |
| State | (3) | 6 | 1 |
| | (8) | 25 | 3 |
| Deferred: | | | |
| Federal | – | – | – |
| State | – | – | – |
| Total provision (benefit) for income taxes | $ (8) | $ 25 | $ 3 |

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

| | December 31, 2022 | 2021 | 2020 |
|---|---|---|---|
| Federal tax at statutory rate | $ 4,169 | $ 4,360 | $ 4,228 |
| State tax, net | 1 | 4 | 2 |
| Patronage distributions | (2,730) | (3,878) | (3,762) |
| Tax-exempt FLCA earnings | (1,460) | (562) | (558) |
| Changes in tax law/rates | – | – | – |
| Change in deferred tax asset valuation allowance | 10 | 117 | 122 |
| Other | 2 | (16) | (29) |
| Provision (benefit) for income taxes | $ (8) | $ 25 | $ 3 |

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

| | December 31, 2022 | 2021 | 2020 |
|---|---|---|---|
| Deferred income tax assets: | | | |
| Allowance for loan losses | $ 85 | $ 370 | $ 381 |
| Other property owned writedown | – | – | – |
| Nonaccrual loan interest | 62 | 80 | 116 |
| Fixed assets (asset) | – | – | 5 |
| NOL Carryforward | 688 | 201 | – |
| Gross deferred tax assets | 835 | 651 | 502 |
| Less: valuation allowance | (507) | (497) | (380) |
| Gross deferred tax assets, net of valuation allowance | 328 | 154 | 122 |
| Deferred income tax liabilities: | | | |
| Special Patronage | (147) | – | – |
| Fixed assets | (28) | (12) | – |
| Loan origination fees | (153) | (142) | (122) |
| Gross deferred tax liability | (328) | (154) | (122) |
| Net deferred tax asset (liability) | $ – | $ – | $ – |

At December 31, 2022, deferred income taxes have not been provided by the Association on approximately $0.9 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 $507, $497, and $380 as of December 31, 2022, 2021 and 2020, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2022 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2019 and forward.

## Note 13 — Additional Financial Information

***Quarterly Financial Information (Unaudited)***

| | 2022 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| Net interest income | $ 5,478 | $ 5,598 | $ 5,857 | $ 6,031 | $ 22,964 |
| Provision for (reversal of) allowance for loan losses | (110) | (50) | (1,742) | (47) | (1,949) |
| Noninterest income (expense), net | (1,939) | (2,058) | (1,962) | 907 | (5,052) |
| Net income | $ 3,649 | $ 3,590 | $ 5,637 | $ 6,985 | $ 19,861 |

| | 2021 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| Net interest income | $ 5,342 | $ 5,367 | $ 5,901 | $ 5,635 | $ 22,245 |
| Provision for (reversal of) allowance for loan losses | (64) | (26) | 143 | (60) | (7) |
| Noninterest income (expense), net | (1,763) | (2,148) | (2,114) | 4,513 | (1,512) |
| Net income | $ 3,643 | $ 3,245 | $ 3,644 | $ 10,208 | $ 20,740 |

| | 2020 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| Net interest income | $ 5,356 | $ 5,430 | $ 5,445 | $ 5,661 | $ 21,892 |
| Provision for (reversal of) allowance for loan losses | 144 | (25) | 118 | (3) | 234 |
| Noninterest income (expense), net | (1,826) | (1,790) | (1,727) | 3,817 | (1,526) |
| Net income | $ 3,386 | $ 3,665 | $ 3,600 | $ 9,481 | $ 20,132 |

## Note 14 — Subsequent Events

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

Subsequent to December 31, 2022, the Board of Directors at the February 2023 board meeting approved a cash patronage refund to customers in the amount of $14,000. This was an increase of $1,000 from the estimated cash patronage refund of $13,000 accrued at December 31, 2022.

FARM CREDIT

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