FARM CREDIT OF THE VIRGINIAS, ACA

2023 ANNUAL REPORT

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Brad Cornelius .... Chief Executive Officer
Michael Almond .... Chief Lending Officer
Melanie Craig .... Chief Human Resources Officer
Pete Cypret .... Chief Risk Officer
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Bradley Hewitt .... Chief Credit Officer
Justin Weekley .... Chief Financial Officer

Board of Directors

James F. Kinsey .... Chairperson
Kevin C. Craun .... Vice Chairperson
Ronald L. Bennett .... Director
Donna M. Brooke-Alt .... Director
David Wayne Campbell .... Director
Robert M. Chambers, Jr. .... Director
Charles E. Horn, Jr. .... Director
Kyle E. House .... Director
Melody S. Jones .... Director
Charles R. King, Jr. .... Director
Charles B. Leech, IV .... Director
Milton L. McPike, Jr. .... Director
Donald W. Reese .... Director
Alfred W. Stephens, Jr. .... Director
John E. Wells .... Director

Message from the Chief Executive Officer

Back in the fall of 2022 when our senior leadership team began drafting the 2023 Business Plan, we recognized it would be a year of growth and transformation. Our priorities included growing loan volume, advancing employees' skill and leadership proficiency and upgrading our technology platforms to better serve our member-borrowers. I would like to begin this message by reviewing our efforts to address these priorities.

Farm Credit of the Virginias' total loan volume at the conclusion of 2023 was $2.18 billion. The total loan volume was $87.1 million greater than the previous year. Our Association delivered on our objective to grow loan volume and experienced 4.17% portfolio growth in 2023, compared to 3% portfolio growth in 2022. Net income at the conclusion of 2023 was approximately $39.5 million, of which $1.1 million is attributable to special patronage from AgFirst Farm Credit Bank. The cooperative concluded the year with credit quality at 95.97% acceptable.

Encouraging growth in our employees required the concentrated efforts of our HR team. To advance learning and professional development among our employees, the HR department delivered enriched training programs that exceeded expectations. In addition to refining traditional role-based training, the HR team enhanced the Step Up to Lead program for emerging leaders and we graduated our first cohort in the fall. The rollout of additional Step Up programming is planned for 2024 to continue our efforts to cultivate effective leaders at your cooperative.

In 2023, we continued our focus on maximizing human capital through our human equity strategy. Human equity is defined as the optimization of all the knowledge, skills and intangible assets that our team members bring to their role, operating through a diversity lens. Over the course of the year, we activated internal initiatives to address blind spots and increase employee engagement, satisfaction and well-being.

Our cooperative continuously seeks opportunities to refine and update our processes and efficiencies to meet the ever-changing needs of our customer-owners. In 2023, we implemented several major system upgrades with the assistance of our service providers at AgFirst Farm Credit Bank. The rollout of a modernized online banking platform (Digital Banking) was the first of those upgrades, which took place in June. The Digital Banking platform offers our members greater accessibility, an updated user interface, streamlined navigation and more. In July, our accounting function transitioned from two outdated systems to a single, modernized product. The rollout did not go as seamlessly as we anticipated and many of you encountered service disruptions as a result – we apologize for any inconvenience you may have experienced.

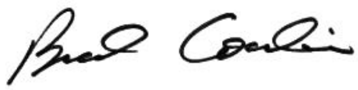
As a cooperative, we are uniquely positioned to celebrate our success jointly with our borrowers. Each year, the board of directors approves an appropriate level of patronage, carefully balancing the economic landscape, the operational goals of the cooperative and our desire to return as much cash to our members as possible. In April, we were pleased to deliver $30 million to our members in cash patronage, accounting for over 70% of our net profits from the previous year.

Farm Credit of the Virginias is committed to the prosperity of agriculture and preserving the great quality of life in the rural communities we serve and call home. Investing in our communities through charitable giving is of high priority to our cooperative and critical to our mission. In 2023, we enhanced these efforts through the continuation of the Charitable Contributions Fund grant program. Launched in 2022, the program was established as a means to build stronger partnerships with organizations that support farmers and families within our footprint. During the first year of funding, we awarded a total of $100,000 in grants to 12 non-profits. In 2023, we were pleased to offer $115,000 in grant funding to support the efforts and community-based projects of 13 non-profits. We look forward to seeing the lasting impact these funds will have throughout our territory.

In addition to the funds appropriated to the Charitable Contributions Fund, our cooperative dispersed an additional $210,000 in 2023 to organizations and institutions in our footprint that address food insecurity, support youth and young adult agricultural enrichment, offer research-based outreach and engagement opportunities for producers, advance opportunities for military veterans in agriculture and more.

Another manner in which our cooperative invests in our rural communities is through the Farm Credit Knowledge Center. Funded by Farm Credit of the Virginias, the Farm Credit Knowledge Center offers education-based programming, events and resources to benefit our customer-owners and the greater agricultural community. In 2023, the Knowledge Center delivered over 31 educational events, conducted in-person and virtually, to more than 1,000 participants. These offerings included the Star Insights Series, Farm Management Institutes, Dairy Management Institutes, Launching Leaders Summit and more. The Knowledge Center continues to offer two separate monthly e-newsletters tailored for producers and educators. New in 2023, the Farm Credit Knowledge Center piloted transition planning dinner meetings.

To summarize, 2023 was certainly a year of transformation and growth for your cooperative, as our senior leaders forecasted in the fall of 2022. We implemented several major technological upgrades necessary for our long-term success. We delivered strong financial results, including growing the loan portfolio by 4.17%. We enhanced learning and development programming to support emerging leaders and remained committed to make strides related to maximizing human capital. Your cooperative continued our long history of paying substantial patronage and met our mission through increased engagement with our rural communities. Thank you for choosing us as your lender. We appreciate your business and look forward to serving you in 2024 and beyond.



Brad Cornelius
Chief Executive Officer

March 7, 2024

Report of Management

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

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

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

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2023 Annual Report of Farm Credit of the Virginias, 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.

James F. Kinsey
Chairperson of the Board

Brad Cornelius
Chief Executive Officer

Justin Weekley
Chief Financial Officer

March 7, 2024

Report on Internal Control Over Financial Reporting

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

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

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

Brad Cornelius
Chief Executive Officer

Justin Weekley
Chief Financial Officer

March 7, 2024

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2023	2022	December 31, 2021	2020	2019
Balance Sheet Data					
Cash	**$ 232**	$ 78	$ 529	$ 131	$ 6,979
Loans	**2,177,003**	2,089,916	2,029,094	1,869,936	1,788,804
Allowance for loan losses	**(5,362)**	(17,318)	(17,690)	(16,386)	(16,034)
Net loans	**2,171,641**	2,072,598	2,011,404	1,853,550	1,772,770
Equity investments in other Farm Credit institutions	**34,540**	25,754	16,779	17,963	20,527
Other property owned	**150**	610	704	826	965
Other assets	**41,349**	37,395	55,255	52,678	44,926
Total assets	**$ 2,247,912**	$2,136,435	$2,084,671	$1,925,148	$1,846,167
Notes payable to AgFirst Farm Credit Bank*	**$ 1,709,056**	$1,617,603	$1,566,004	$1,418,871	$1,353,895
Accrued interest payable and other liabilities with maturities of less than one year	**51,790**	44,800	40,040	55,587	56,081
Total liabilities	**1,760,846**	1,662,403	1,606,044	1,474,458	1,409,976
Capital stock and participation certificates	**10,864**	10,874	10,835	10,530	10,270
Retained earnings					
Allocated	**92,568**	92,568	92,568	92,568	92,568
Unallocated	**383,656**	370,610	375,261	347,632	333,389
Accumulated other comprehensive income (loss)	**(22)**	(20)	(37)	(40)	(36)
Total members' equity	**487,066**	474,032	478,627	450,690	436,191
Total liabilities and members' equity	**$ 2,247,912**	$2,136,435	$2,084,671	$1,925,148	$1,846,167
Statement of Income Data					
Net interest income	**$ 59,332**	$ 54,045	$ 49,657	$ 50,494	$ 54,106
Provision for credit losses	**129**	100	1,400	925	1,000
Noninterest income (expense), net	**(19,691)**	(11,596)	1,372	(325)	(7,125)
Net income	**$ 39,512**	$ 42,349	$ 49,629	$ 49,244	$ 45,981
Key Financial Ratios					
Rate of return on average:					
Total assets	**1.81%**	2.02%	2.51%	2.66%	2.47%
Total members' equity	**7.92%**	8.88%	10.64%	10.75%	10.19%
Net interest income as a percentage of average earning assets	**2.79%**	2.61%	2.55%	2.78%	2.96%
Net (chargeoffs) recoveries to average loans	**(0.004)%**	(0.023)%	(0.005)%	(0.032)%	(0.015)%
Total members' equity to total assets	**21.67%**	22.19%	22.96%	23.41%	23.63%
Debt to members' equity (:1)	**3.62**	3.51	3.36	3.27	3.23
Allowance for loan losses to loans	**0.25%**	0.83%	0.87%	0.88%	0.90%
Permanent capital ratio	**20.90%**	21.28%	21.83%	23.37%	23.59%
Common equity tier 1 capital ratio	**20.84%**	21.10%	21.64%	23.17%	23.39%
Tier 1 capital ratio	**20.84%**	21.10%	21.64%	23.17%	23.39%
Total regulatory capital ratio	**21.15%**	21.93%	22.50%	24.04%	24.23%
Tier 1 leverage ratio**	**21.55%**	21.89%	22.38%	23.95%	24.08%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**21.06%**	21.38%	22.44%	24.18%	24.33%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 38,000**	$ 47,000	$ 22,000	$ 40,000	$ 50,000

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

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

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

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System's mission is to 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 Virginia, West Virginia and 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 calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, **www.farmcreditofvirginias.com**, or by calling 1-540-886-3435, extension 5040, or writing Justin Weekley, Farm Credit of the Virginias, P.O. Box 899, Staunton, VA 24402-0899. 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 analysis 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.

CRITICAL ACCOUNTING POLICIES

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

- *Allowance for credit losses* (ACL)— On January 1, 2023, the Association adopted the Financial Accounting Standards Board (FASB) guidance entitled "Measurement of Credit Losses on Financial Instruments" and other subsequently issued accounting standards updates related to credit losses. This guidance replaced the incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures.

  The ACL comprises:
  - the allowance for loan losses which covers the Association's loan portfolio and is presented separately on the Balance Sheets,
  - the allowance on unfunded commitments, which is presented on the Balance Sheets in other liabilities.

  The ACL takes into consideration relevant information about past events, current conditions and reasonable and supportable macroeconomic forecasts of future conditions. Management also considers the imprecision inherent in their process and methodology, which may lead to a management adjustment to the modeled ACL results. See Note 2 for additional information on the Association's policies and methodologies for determining the ACL. Changes in any of the above factors considered by management in the evaluation of losses in its loan portfolio and unfunded commitments could result in a change in the ACL and have a direct impact on its provision for credit losses and results of operations.

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

ECONOMIC CONDITIONS

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

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

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

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

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

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

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

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

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

LIBOR Transition

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

The Associations implemented LIBOR transition plans in accordance with FCA's guidance to address the risks associated with the discontinuation of LIBOR. See the Association's 2022 Annual Report for further discussion on the LIBOR transition plans.

The Association had exposure to LIBOR arising from loans made to customers, and Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf. To the extent necessary, substantially all financial instruments that reference LIBOR have been amended to incorporate adequate fallbacks, including, where appropriate, the Secured Overnight Finance Rate (SOFR)-based fallbacks recommended by the Alternative Reference Rates Committee (ARRC).

To the extent that any Association contracts do not have or were not amended to include adequate fallback provisions to replace LIBOR, such contracts were amended by operation of law under the federal Adjustable Interest Rate (LIBOR) Act and rules thereunder to include a statutorily fallback to LIBOR. Under the Federal Reserve Board's rule implementing certain provisions of the LIBOR Act (Regulation ZZ), on the LIBOR replacement date (the first London banking day after September 30, 2023), the Federal Reserve Board-selected benchmark replacement, based on the SOFR and including any tenor spread adjustment as provided by Regulation ZZ, automatically replaced references to overnight, one, three, six, and twelve month LIBOR in all remaining contracts that did not mature before the LIBOR replacement date and did not contain adequate fallback language.

LOAN PORTFOLIO

The Association's loan volume was $2,177,003 at December 31, 2023 compared to $2,089,916 at December 31, 2022, an increase of $87,087 or 4.17 percent. The increase in loan volume was primarily driven by increased demand for real estate mortgage loans.

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

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

	December 31,					
Loan Type	**2023**		**2022**		**2021**	
	(dollars in thousands)					
Real estate mortgage	$ 1,690,380	77.65 %	$ 1,650,781	78.99 %	$ 1,599,565	78.83 %
Production and intermediate-term	316,864	14.56	309,369	14.80	317,408	15.64
Rural residential real estate	59,687	2.74	59,976	2.87	63,602	3.13
Processing and marketing	70,016	3.22	48,709	2.33	35,060	1.73
Rural Infrastructure	22,388	1.03	6,332	0.30	2,654	0.14
Farm-related business	17,668	0.80	14,749	0.71	10,805	0.53
Total	$ 2,177,003	100.00 %	$ 2,089,916	100.00 %	$ 2,029,094	100.00 %

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

The geographic distribution of the loan volume by branch/state for the past three years is as follows:

	December 31,		
Branch/State	**2023**	**2022**	**2021**
Abingdon, VA	7%	7%	7%
Bedford, VA	2	2	2
Bridgeport, WV	2	2	2
Charlottesville, VA	4	3	3
Chatham, VA	3	2	3
Culpeper, VA	5	5	5
Harrisonburg, VA	10	11	11
Leesburg, VA	11	11	11
Lewisburg, WV	2	2	2
Lexington, VA	3	3	3
Moorefield, WV	3	4	4
Oakland, MD	3	3	3
Orange, VA	6	6	6
Ripley, WV	3	3	3
Roanoke, VA	3	3	3
Rocky Mount, VA	3	3	3
Romney, WV	1	1	1
South Boston, VA	2	2	2
Verona, VA	6	7	7
Warrenton, VA	7	7	7
Wytheville, VA	5	5	5
Agribusiness	4	4	4
Special Assets Group	–	–	–
Participation Loans Purchased	6	4	3
Participation Loans Sold	(1)	–	–
	100%	100%	100%

The major commodities in the Association's loan portfolio are shown below. The predominant commodities are livestock, field crops, and timber, which constitute 71 percent of the entire portfolio in 2023.

	December 31,					
Commodity Group	**2023**		**2022**		**2021**	
	(dollars in thousands)					
Livestock	$ 730,703	34%	$ 727,520	35%	$ 716,086	35%
Field Crops	508,174	23	499,341	24	476,168	23
Timber	295,696	14	255,404	12	235,496	12
Poultry	172,383	8	168,316	8	175,721	9
Dairy	117,528	5	126,453	6	134,983	7
Rural Home	60,385	3	60,855	3	64,720	3
Tobacco	12,748	1	13,145	1	13,305	1
Other	279,386	12	238,882	11	212,615	10
Total	$ 2,177,003	100%	$ 2,089,916	100%	$ 2,029,094	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of livestock producers. Although a large percentage of the loan portfolio is concentrated in these commodities, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Demand for beef, prices of field grains, and international trade are some of the factors affecting the prices of these commodities. To proactively reduce overall risk exposure, the concentration of large loans has decreased over the past few 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.

During 2023, the Association continued to buy and sell loan participations within the System. Loan participations provide a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen its capital position.

	December 31,		
Loan Participations:	**2023**	**2022**	**2021**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 139,606	$ 74,386	$ 55,301
Participations Sold	(13,098)	(9,037)	(8,137)
Total	$ 126,508	$ 65,349	$ 47,164

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

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2023, the Association originated loans for resale totaling $15,870, which were all sold into the secondary market.

MISSION RELATED INVESTMENTS

In October 2005, the FCA authorized AgFirst and the associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. Effective December 31, 2014, the FCA concluded each pilot program approved as part of the Investment in Rural America Bonds program. Each System institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs ended, the FCA can consider future requests on a case-by-case basis.

The Association did not hold any Rural American Bonds during the period of January 1, 2021, thru December 31, 2023.

CREDIT RISK MANAGEMENT

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

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

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

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

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

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

Credit Quality	2023	2022	2021
Acceptable & OAEM	97.63%	98.20%	97.07%
Substandard	2.37%	1.80%	2.92%
Doubtful & Loss	0.00%	0.00%	0.01%
Total	100.00	100.00%	100.00%

Nonperforming Assets

The following table reflects nonperforming assets and related credit quality statistics. Prior to the adoption of CECL on January 1, 2023, nonperforming loans were included with accrued interest and included accruing restructured loans as shown in the following table:

(*dollars in thousands*)	December 31, 2023	2022	2021
	(dollars in thousands)		
Nonaccrual loans	$ 26,557	$ 19,645	$ 25,705
Restructured loans		15,072	14,910
Accruing loans 90 days past due	–	–	–
Total nonperforming loans	26,557	$ 34,717	$ 40,615
Other property owned	150	610	704
Total nonperforming assets	$ 26,707	$ 35,327	$ 41,319
Ratios			
Nonaccrual loans to total loans	1.22%	0.94%	1.27%
Nonperforming assets as a percentage of total loans and other property owned	1.23%	1.65%	1.98%

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 $6,912 or 35.18 percent in 2023. The increase was mainly due to the transfer of additional loans to nonaccrual status, partially offset by payments received on loans and loans being reinstated into accruing status during the year. Of the $26,557 in nonaccrual loan volume at December 31, 2023, $18,870 or 71.05 percent, compared to 69.93 percent and 61.31 percent at December 31, 2022 and 2021, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. 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.

Other property owned totaled $150 at December 31, 2023. This was a decrease of $460 as compared to December 31, 2022. The decrease was mainly due to properties being sold and fewer properties being acquired during the year. The Association actively markets these properties in order to sell them.

Allowance for Credit Losses

Effective January 1, 2023, the Association adopted the CECL accounting guidance that replaced the incurred loss impairment methodology with a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This framework requires that management's estimate reflect credit losses over the asset's remaining expected life and consider the reasonable and supportable forecasts of macroeconomic conditions. The expected life of each financial instrument is determined by considering its contractual term and expected prepayments, when appropriate, and excludes expected extensions, renewals and modifications unless the extension or renewal options are not unconditionally cancellable. See *Critical Accounting Policies, Note 2 - Summary of Significant Accounting Policies* and *Note 3 - Loans and Allowance for Credit Losses* sections for further discussion of the ACL methodology.

Upon adoption of CECL, the Association recorded a Day 1 decrease in the ACL of $11.5 million, which included an $11.7 million decrease in the allowance for loan losses and a $0.2 million increase in the allowance for unfunded commitments due to the requirement to estimate losses over the contractual life of financial assets. The Day 1 decrease in the ACL was recorded as an increase to unallocated retained earnings as outlined by accounting guidance.

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

	Year Ended December 31,		
Allowance for Credit Losses Activity:	**2023**	**2022**	**2021**
Allowance for loan losses	*(dollars in thousands)*		
Balance at beginning of year	$ 17,318	$ 17,690	$ 16,386
Cumulative effect of change in accounting principle	(11,759)	–	–
Charge-offs:			
Real estate mortgage	–	(8)	–
Production and intermediate-term	(352)	(719)	(283)
Rural residential real estate	–	(2)	(43)
Total charge-offs	(352)	(729)	(326)
Recoveries:			
Real estate mortgage	22	68	43
Production and intermediate-term	244	172	178
Agribusiness	3	15	8
Rural residential real estate	–	2	1
Total recoveries	269	257	230
Net charge-offs	(83)	(472)	(96)
Provision (reversal) for loan losses	(114)	100	1,400
Allowance for loan losses – ending balance	$ 5,362	$ 17,318	$ 17,690
Allowance for unfunded commitments			
Cumulative effect of change in accounting principle	$ 224	–	–
Provision for unfunded commitments	244	–	–
Allowance for unfunded commitments – ending balance	468	–	–
Total allowance for credit losses	$ 5,830	–	–
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.004)%	(0.023)%	(0.005)%

The allowance for loan losses decreased during 2023 primarily as a result of the change in accounting principle ($11.7 million) when the Association adopted the new CECL accounting standard, the reversal of the previously established provision of $114 and net charge-offs of $83.

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

	December 31,		
Allowance for Credit Losses by Type	**2023**	**2022**	**2021**
	(dollars in thousands)		
Real estate mortgage	$ 2,785	$ 7,646	$ 7,301
Production and intermediate-term	2,265	8,304	9,551
Agribusiness	206	1,076	545
Rural infrastructure	13	24	16
Rural residential real estate	92	261	277
International	1	7	–
Total Allowance for Loan Losses	$ 5,362	$ 17,318	$ 17,690
Allowance for Unfunded Commitments	468	–	–
Total Allowance for Credit Losses	$ 5,830	17,318	$ 17,690

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

Allowance for Loan Losses	December 31,		
as a Percentage of:	**2023**	**2022**	**2021**
Total loans	0.25%	0.83%	0.87%
Nonaccrual loans	20.19%	88.15%	68.82%

Periods of uncertainty in the general economic environment create the potential for prospective risks in the loan portfolio. See *Note 3 – Loans and Allowance for Credit Losses*, in the Notes to the Financial Statements and the Critical Accounting Policies section, above, for further information concerning the allowance for credit losses. See *Note 2 – Summary of Significant Accounting Policies*, in the Notes to the Financial Statements for the impact of the CECL accounting standard adopted on January 1, 2023.

RESULTS OF OPERATIONS

The Association's net income was $39,512 for 2023, $42,349 for 2022, and $49,629 for 2021. The decrease in net income for 2023 compared to 2022 was primarily due to a decrease in AgFirst patronage refund received by the Association. The decrease in net income for 2022 compared to 2021 was mainly due to a decrease in the AgFirst patronage refund received, partially offset by an increase in net interest income.

Interest income was $119,324 for 2023, $99,120 for 2022, and $87,461 for 2021. The increase in interest income for 2023 compared to 2022 was largely attributable to the increase in interest rates experienced in 2023, coupled with continued loan volume growth and increases in nonaccrual loan income. The increase in interest income for 2022 compared to 2021 was largely attributable to an increase in interest rates and loan volume experienced in 2022 as compared to 2021.

Net Interest Income

Net interest income was $59,332 for 2023, $54,045 for 2022 and $49,657 for 2021. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. Net interest income increased during 2023 compared to 2022 mainly due to higher loan volumes and interest rates experienced during the year.

The following table presents the effects of changes in volume, and interest rates, and nonaccrual income on net interest income.

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
		(dollars in thousands)		
12/31/23 - 12/31/22				
Interest income	$ 3,005	$ 16,131	$ 1,068	$ 20,204
Interest expense	1,833	13,084	–	14,917
Change in net interest income	$ 1,172	$ 3,047	$ 1,068	$ 5,287
12/31/22 - 12/31/21				
Interest income	$ 5,206	$ 6,010	$ 443	$ 11,659
Interest expense	2,836	4,435	–	7,271
Change in net interest income	$ 2,370	$ 1,575	$ 443	$ 4,388

* *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

Total noninterest income for the period ended December 31, 2023, totaled $15,328, a decrease of $7,919 or 34.06 percent, as compared to $23,247 for 2022.

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

	For the Year Ended December 31,			Increase/(Decrease)	
Noninterest Income	**2023**	**2022**	**2021**	**2023/ 2022**	**2022/ 2021**
		(dollars in thousands)			
Loan fees	$ 560	$ 793	$ 1,443	$ (233)	$ (650)
Fees for financially related services	27	63	102	(36)	(39)
Patronage refund from other Farm Credit Institutions	13,653	21,238	31,829	(7,585)	(10,591)
Gains on sales of rural home loans, net	227	910	1,341	(683)	(431)
Gains on sales of premises and equipment, net	673	263	46	410	217
Gains (losses) on other transactions	107	(92)	(6)	199	(86)
Other noninterest income	81	72	84	9	(12)
Total noninterest income	$ 15,328	$ 23,247	$ 34,839	$ (7,919)	$ (11,592)

The patronage refund from other Farm Credit Institutions decreased 35.71 percent for 2023 when compared to 2022. The patronage refund, which was from AgFirst, decreased $7,585 compared to last year. The decrease was due to AgFirst decreasing its special patronage refund paid to the Association. For 2023 the special patronage refund was $1,085 and was distributed by AgFirst in cash. For 2022 and 2021, the special patronage refund was $9,004 and $20,424 respectively. The 2022 special patronage refund was paid as allocated surplus while the 2021 refund was paid in cash.

Gains on sales of rural home loans totaled $227 in 2023, a decrease of 75.05 percent when compared to 2022. The decrease was the result of fewer loans sold into the secondary market as a result of the decreased housing market activity and higher interest rates experienced in 2023.

Noninterest Expense

Total noninterest expense increased $223 or 0.64 percent for the year ended December 31, 2023, as compared to the same period for 2022.

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

Noninterest Expense	For the Year Ended December 31, 2023	2022	2021	Increase/(Decrease) 2023/2022	2022/2021
	(dollars in thousands)				
Salaries and employee benefits	$ 18,639	$ 17,925	$ 15,891	$ 714	$ 2,034
Postretirement benefits	3,796	4,294	5,826	(498)	(1,532)
Occupancy and equipment	1,576	1,501	1,472	75	29
Insurance Fund premiums	2,984	3,183	2,370	(199)	813
Losses/(Gain) on other property owned, net	(52)	32	218	(84)	(186)
Other operating expenses	8,060	7,845	7,698	215	147
Total noninterest expense	$ 35,003	$ 34,780	$ 33,475	$ 223	$ 1,305

Salaries and employee benefits increased for 2023 compared to 2022 mainly due to salary adjustments, higher benefit costs paid by the Association, and lower deferred personnel costs as a result of lower loan actions. Postretirement benefits decreased by $498 due to a decrease in pension contributions in 2023 as compared to 2022. Refer to Note 9, *Employee Benefit Plans*, for more information concerning the adjustment.

Insurance Fund premiums decreased $199 for 2023 compared to 2022 primarily due to lower premium assessment rates, partially offset by an increase in loan volume in 2023 as compared to 2022.

Income Taxes

The Association recorded a provision for income taxes of $16 for the year ended December 31, 2023 and a provision of $63 for the year ended December 31, 2022, as compared to a benefit for income taxes of $8 for 2021. Refer to Note 2, *Summary of Significant Accounting Policies*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/23	12/31/22	12/31/21
Return on average assets	1.81%	2.02%	2.51%
Return on average members' equity	7.92%	8.88%	10.64%
Net interest income as a percentage of average earning assets	2.79%	2.61%	2.55%
Net (charge-offs) recoveries to average loans	(0.004)%	(0.023)%	(0.005)%

The decrease in net income for 2023 resulted in lower returns on average assets and average members' equity when compared to 2022.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2023, was $1,709,056 as compared to $1,617,603 at December 31, 2022 and $1,566,004 at December 31, 2021. The average volume of outstanding notes payable to the Bank was $1,661,400 and $1,596,472 for the years ended December 31, 2023 and 2022, 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 the Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association. The Association did not have any lines of credit from third party financial institutions as of December 31, 2023.

Funds Management

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

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

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

Relationship with the Bank

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

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

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

CAPITAL RESOURCES

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

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

Members' equity at December 31, 2023, totaled $487,066, an increase of $13,034 or 2.75 percent compared to $474,032 at December 31, 2022. At December 31, 2022, total members' equity decreased 0.96 percent from the December 31, 2021 total of $478,627. The increase in 2023 was primarily attributed to the earnings of the Association offset by the cash patronage refund paid in April 2023 and the estimated cash profit-sharing distribution accrued at December 31, 2023 to the Association's member-stockholders. The Association plans to distribute approximately $32 million of its 2023 net income in cash to its member-stockholders during the second quarter of 2024.

Total capital stock and participation certificates were $10,864 on December 31, 2023, compared to $10,874 on December 31, 2022 and $10,835 on December 31, 2021.

The FCA sets minimum regulatory capital requirements for System Banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. 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:

		Capital Ratios as of December 31,		
Ratio	**Minimum Requirement**	**2023**	**2022**	**2021**
Risk-adjusted ratios:				
CET1 Capital Ratio	7.00%	20.84%	21.10%	21.64%
Tier 1 Capital Ratio	8.50%	20.84%	21.10%	21.64%
Total Capital Ratio	10.50%	21.15%	21.93%	22.50%
Permanent Capital Ratio	7.00%	20.90%	21.28%	21.83%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	5.00%	21.55%	21.89%	22.38%
UREE Leverage Ratio	1.50%	21.06%	21.38%	22.44%

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.

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

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions.

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

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

The 2017 USDA Ag Census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The Association currently has a high penetration in the Young, Beginning, and Small farm market. As of December 31, 2023, the Association was doing business with 26.9 percent of the Young farmers, 16.0 percent of the Beginning farmers, and 9.8 percent of the Small farmers identified by the 2017 USDA Ag Census.

For 2023, the Association established quantitative goals for the number of loans, percent of total loans, and percent of volume of loans to YBS farmers, on the basis of both annual loan activity and total portfolio composition. These goals are established for a three-year period and reviewed and updated annually.

Loans to Young, Beginning, and Small Farmers

	2023 Goals		
	Number of Loans	Percent of Total	Percent of Volume
New Loans and Commitments made to:			
Young Farmers	500	15%	10%
Beginning Farmers	900	25%	20%
Small Farmers	2,500	70%	50%
Total Loans in the portfolio made to:			
Young Farmers	2,500	15%	10%
Beginning Farmers	4,000	25%	20%
Small Farmers	11,000	70%	50%

The Association met or exceeded its 2023 goals for all categories, with the exception of the number of new loans made to small farmers during the year and the percent of volume of loans made to small farmers. The deficit towards these goals was in large part due to a decrease in the Association's overall number of new loans made, given the rising interest rate environment.

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

	As of December 31, 2023	
(dollars in thousands)	Number of Loans	Amount of Loans
Young	3,060	$375,996
Beginning	5,658	$866,690
Small	11,985	$1,424,497

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

The following strategies and outreach programs have been conducted which allowed the Association to meet its objectives and goals in the young, beginning, and small farmer program:

The Association has the goal of serving YBS through extensive outreach programs that includes activities in marketing, education, training, and financial support. The Association continued previously sponsored outreach/sponsorship activities in which the Association participated for the purpose of promoting and supporting YBS efforts, as well as incorporated new outreach/sponsorships to continue building the Association's commitment to YBS farmers.

Farm Credit of the Virginias continues its participation in specific credit programs and partnerships developed to help small farmers, young farmers, and beginning farmers. It includes programs offered by the Farm Service Agency (FSA), such as guaranteed and direct loans to qualifying borrowers. The Association has earned the distinction of a "preferred lender," the highest status designated by FSA. The Association also supports young and beginning farmers through our Youth Loan program.

The Association's FarmLaunch® program is designed primarily for young, beginning, and military veteran farmers providing both startup loans and education and resources. FarmLaunch® provides access to working capital, educational resources and mentorship to aid in the development of sound business practices and a solid credit history, allowing participants to graduate to conventional financing for future loans if needed. In 2023, 475 FarmLaunch® loans were made. In 2023, FCV piloted a special program for lending to young and beginning full-time farmers with larger financial needs, leveraging loan guarantees and joint financing available through FSA, with plans to integrate this program into FarmLaunch® in 2024.

The Association formed a Knowledge Center in 2014 to provide educational opportunities and resources for all farmers, including specific content and resources to YBS farmers. In 2023, the Knowledge Center engaged with over 3,890 individuals through online and in person education offerings.

Since 2011, the Association has supported the Ag Biz Planner financial training program for YBS farmers. Through 2023, 136 participants have completed the program since its inception. In 2023, there were five participants from FCV. Program alumni can access an online portal to assist with additional program materials and virtual learning opportunities.

The Association annually hosts Farm Management Institute (FMI) seminars, with content focused towards YBS audiences, across our footprint. Nationally recognized agricultural business consultant Dr. David Kohl facilitates FMI for the Association. Total attendance was over 95 in 2023. The Farm Credit Knowledge Center also hosted additional in-person offerings in 2023, including a "Launching Leaders" seminar focused towards YBS farmers, and a "Star Insights" series to provide commodity and market-based updates and resources. In 2023, the Association hosted several in-person offerings and provided online resources on Farm Transition and Succession which focused on the transition process for farming operations or agribusiness and understanding next steps as one generation transfers operations to the next.

Through the Knowledge Center website, resources such as the "From the Ground Up" business toolkit are promoted to YBS farmers. In 2021, the Knowledge Center developed the AgHub, which serves as an online hub for various commodity specific resources, business and financial management resources, transition and succession planning, risk management, mental health and more. The Knowledge Center also utilizes newsletters targeted to farmers and agriculture industry supporters, as well as an educator edition, to promote programs, provide supplemental resources, and targeted blogs and other focused offerings.

The Association remains fully committed to serving the financing needs of YBS borrowers, and it will continue to evaluate its programs and efforts in order to be even more effective in 2024. The Association utilizes an YBS Advisory Committee for feedback and input, includes YBS goals in the annual business plan, and reports on those goals and achievements to the board of directors on a quarterly basis. The Association is committed to the future success of Young, Beginning, and Small farmers.

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

REGULATORY MATTERS

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

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Virginia, West Virginia and Maryland as of December 31, 2023:

Location	Description	Form of Ownership
106 Sangers Lane Staunton, VA	Administrative	Owned
19292 Lee Highway Abingdon, VA	Branch Operations	Owned
1356-B American Way Court Bedford, VA	Branch Operations	Rented
527 East Main Street Bridgeport, WV	Branch Operations	Rented
1445 E. Rio Road Suite 103 Charlottesville, VA	Branch Operations	Rented
19651 US Highway 29 Chatham, VA	Branch Operations	Owned
15574 Ira Hoffman Lane Culpeper, VA	Branch Operations	Owned
268 E. Jackson Street Gate City, VA	Satellite Office	Owned
4646 South Valley Pike Harrisonburg, VA	Branch Operations	Owned
27 Fort Evans Road, NE Leesburg, VA	Branch Operations	Owned
880 North Jefferson Street Lewisburg, WV	Branch Operations	Owned
152 Maury River Road Lexington, VA	Branch Operations	Owned
550 South Main Street Moorefield, WV	Branch Operations	Owned
13195 Garrett Highway Oakland, MD	Branch Operations	Owned
13284 James Madison Hwy Orange, VA	Branch Operations	Rented
2112 Ripley Road Ripley, WV	Branch Operations	Rented
38 Murray Farm Road Roanoke, VA	Branch Operations & Processing Center	Owned
670 Old Franklin Turnpike Rocky Mount, VA	Branch Operations	Owned
452 North High Street Romney, WV	Branch Operations	Owned
4024 Halifax Road South Boston, VA	Branch Operations	Rented

Location	Description	Form of Ownership
102 Industry Way Staunton, VA	Headquarters & Processing Center	Owned
1557 Commerce Road Suite 202 Verona, VA	Branch Operations	Rented
516 Fauquier Road Warrenton, VA	Branch Operations	Owned
660 Pepper's Ferry Road Wytheville, VA	Branch Operations & Processing Center	Owned

Rented facilities are leased by the Association at prevailing market rates from independent third parties for periods not currently exceeding five years.

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 intrasystem financial assistance rights and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 11 of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report 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 at December 31, 2023 and their business experience for the past 5 years.

Senior Officer	Position
Brad Cornelius	*Chief Executive Officer,* since July 2020. He most recently served as Chief Credit Officer of FCV. Prior to these roles he served as Chief Credit Officer and Chief Executive Officer at other Farm Credit Associations.
Michael Almond	*Chief Lending Officer,* since November 2020. He has 26 years of Farm Credit experience, most recently serving as Regional Lending Manager at another Farm Credit association.
Melanie Craig	*Chief Human Resources Officer*, since March 2022. She has 17 years of Farm Credit experience in positions of increasing responsibility, most recently serving as the Director of Human Resources.
Pete Cypret	*Chief Risk Officer,* since June 2019. He has 23 years of risk and analytics experience in bank lending and is a certified Professional Risk Manager.
Melissa Driver	*Corporate Secretary,* since January 2018. She has 39 years of Farm Credit experience serving in roles of increasing responsibility.
A. Katie Frazier	*Chief Brand Officer,* since May 2018. She has 18 years of public affairs experience at the state and federal level, and spent seven years leading a non-profit agricultural trade association in Virginia.
Bradley Hewitt	*Chief Credit Officer,* since August 2020. He has 15 years of Farm Credit experiences in roles of increasing responsibility, most recently serving as a Credit Manager.
Justin Weekley	*Chief Financial Officer,* since October 2018. He is a licensed certified public accountant in West Virginia and has 10 years of experience in public accounting focusing on the audits of financial statements and internal controls.

Compensation Overview

The Association's compensation philosophy is to pay for performance that supports the Association's short-term and long-term business strategies and enhances the member-shareholders' value in the Association. The overall compensation programs which include base salary, incentive compensation and retirement benefits, are designed to offer competitive pay opportunities to employees and enable the Association to effectively attract, retain and motivate highly qualified employees.

The compensation programs for senior officers include both fixed and variable compensation components. The mix of fixed and variable components is designed to balance the need to motivate senior management and employees to find new business opportunities and to promote the Association's mission to ensure a safe, sound, and dependable source of credit for agriculture and rural America. The fixed component of compensation is the annual salary. The variable component of compensation is an incentive program. The incentive program is designed to promote pay for performance while balancing the needs of the Association to manage risk and promote sound credit decisions. The incentive compensation is paid in two parts. Part of the incentive is paid to employees shortly after the end of the year. This part is referred to as the short-term incentive. The remaining component of the incentive is paid after the completion of two years and this is referred to as the long-term incentive.

The Chief Executive Officer (CEO), senior officers, and all eligible employees of the Association participate in the incentive plan.

Salary. The CEO, senior officers and all employees of the Association have a base salary as part of their compensation program. The base salary is determined based on position, responsibilities and performance. The Association strives to provide employees with base salaries that are competitive with respect to the position, as identified in compensation surveys conducted by external compensation consultants, and the need to maintain careful control of salaries and benefits expense. The Board of Directors has delegated the base salaries administration for senior officers to the CEO. The CEO's base salary is reviewed and approved by the Board of Directors.

Short-Term Incentives. The Association provides short-term incentive programs for senior officers and eligible employees. The short-term incentive programs are designed to promote new business development, increased loan volume and revenue growth, and increase the Association's net income. These financial measures were selected since they align with our mission and enhance the Association's ability to pay a patronage refund to our member-stockholders. The senior officers' short-term incentive is based on the financial performance of the Association. The senior officers' short-term incentive is reduced if key financial business goals are below established targets. The short-term incentive programs are reviewed and approved annually by the Board of Directors.

The short-term incentive for 2023 was expensed during 2023 with the payment to be made in the first quarter of 2024.

Long-term Incentives. The Association provides a long-term incentive program for senior officers and eligible employees. The long-term incentive plan is designed to motivate and reward eligible employees to meet and exceed financial and performance goals of the Association. The financial and performance goals are net volume growth, adjusted income, adjusted efficiency ratio, and mission related metrics. These performance areas are weighted, with net volume growth and adjusted net income receiving the highest weighting. A target goal is set for each financial and performance goal. The incentive amount is determined by the Association's performance compared to the goals. The long-term incentive for 2023 will be paid during the first quarter of 2026. Since the 2023 long-term incentive will be paid out after two years, it will be expensed equally over the next two years. The long-term incentive program is reviewed and approved by the Board of Directors.

Retirement benefits. The Association provides retirement benefits to the CEO, senior management and employees to offer a competitive compensation program.

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

Employees hired on or after January 1, 2003, but prior to November 4, 2014, participated in the AgFirst Farm Credit Cash Balance Retirement Plan. This plan was a qualified defined contribution pension plan. The plan was terminated as of December 31, 2016 and vested benefits of the plan were distributed to plan participants in 2017.

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

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

Employees who choose to defer a portion of their compensation may defer part or all of their base salary, short term incentive, and long term incentive and or bonus. This is shown under the deferred compensation column in the Summary of Compensation table below.

The following Summary of Compensation table includes compensation paid to the CEO and the senior officers and highly compensated individuals as a group, excluding the CEO, during the years ended December 31, 2023, 2022 and 2021:

Name of Individual or Number in Group	Year	Salary	Bonus Short Term	Bonus Long term	Deferred Comp.	Change in Pension Value (1)	Perq/ Other(2)	Total
CEO:								
Brad Cornelius	2023	$ 450,704	$ 107,777	$ 102,878	$ 39,192	$ 417,564	$ 19,550	$ 1,137,665
Brad Cornelius	2022	$ 468,800	$ 90,330	$ 70,320	$ –	$ (137,596)	$ 14,732	$ 506,586
Brad Cornelius	2021	$ 420,000	$ 105,000	$ 79,800	$ –	$ (95,399)	$ 71,276	$ 580,677
Senior Officers and Highly Compensated Employees:								
8	2023	$ 1,504,785	$ 256,651	$ 255,814	$ –	$ 506,047	$ 34,741	$ 2,558,038
8	2022	$ 1,431,009	$ 218,614	$ 214,651	$ –	$ (605,105)	$ 58,082	$ 1,317,251
10	2021	$ 1,391,553	$ 281,918	$ 256,195	$ –	$ 250,169	$ 54,109	$ 2,233,944

All amounts are in actual dollars.

(1) The change in pension values in 2023 as reflected in the table above, was primarily due to assumption changes, primarily a decrease in the discount rate which increased the present value of pension benefits. The change in pension values in 2022 and 2021 was primarily from changes in the actuarial assumptions for discount rate. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

(2) The Perquisites/Other amount disclosed in the above chart include group life insurance, automobile compensation, spousal expense reimbursements for attendance at Association meetings, physical fitness reimbursement, payments for excess annual leave, and relocation.

Pension Benefits for the year ended December 31, 2023:

Pension Benefits Table
As of December 31, 2023

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2023
CEO:					
Brad Cornelius, CEO	2023	AgFirst Retirement Plan	33	$ 2,993,332	$ –
				$ 2,993,332	$ –
Senior Officers and Highly Compensated Employees:					
3, excluding the CEO	2023	AgFirst Retirement Plans	31*	$ 3,592,078	$ –
				$ 3,592,078	$ –

All amounts are in actual dollars.

**Represents the average years of credit service for the Senior Officers and Highly Compensated Employees participating in the Plan.*

The disclosure of information on the total compensation paid during 2023 to any senior officer as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

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

Employee Travel Reimbursement

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.

Defined Benefit-Type Plans

The Association sponsors a non-qualified defined benefit supplemental executive retirement plan for Donald L. Shiflet, retired CEO. The purpose of the non-qualified plan is to provide benefits that supplement the qualified defined benefit plan in which the Association’s employees participate. For Mr. Shiflet, 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.

Directors

The following chart details the current term of each director and total cash compensation paid for 2023:

DIRECTOR	CURRENT TERM	TOTAL COMPENSATION PAID DURING 2023
James F. Kinsey, **Chairperson**	2022-2025	$ 34,900
Kevin C. Craun, **Vice Chairperson**	2021-2024	36,550
Melody S. Jones, **Chairperson of Audit Committee**	2023-2026	34,290
Ronald L. Bennett	2022-2025	21,150
Donna M. Brooke-Alt	2022-2025	31,750
David Wayne Campbell	2023-2026	31,200
Robert M. Chambers, Jr.	2023-2026	32,400
Charles E. Horn, Jr.	2020-2023	28,950
Kyle E. House	2021-2024	23,350
Charles R. King, Jr.	2022-2024	29,800
Charles B. Leech, IV	2020-2023	20,600
Milton L. McPike, Jr.	2021-2024	24,250
Donald W. Reese	2022-2025	26,800
Alfred W. Stephens, Jr.	2021-2024	24,410
John E. Wells	2020-2023	32,400
		$ 432,800

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

James F. Kinsey, Chairperson, is owner/manager of Kinsey's Oak Front Farms, a purebred Angus beef operation. He serves on the board of directors for the West Virginia Cattlemen's Association and on the Wardensville Bull Test Advisory Committee. Mr. Kinsey is also a member of the WV Farm Bureau, WV Angus Association, American Angus Association and the National Cattlemen's Association.

Kevin C. Craun, Vice Chairperson, owns and operates, with his brother, a 900-acre operation supporting 190 dairy cows, 100 cow/calf pairs and dairy steers. Mr. Craun is a director and chairman of the Shenandoah Valley Soil and Water Conservation District, and a member of the Rockingham County Agriculture Stewardship Committee. Mr. Craun serves as a commissioner of the Virginia State Milk Commission. He also serves on the AgFirst Farm Credit District Advisory Committee.

Ronald L. Bennett is owner/operator of the family's dairy, Watahala Dairy Farm. Mr. Bennett serves on the Alleghany County Farm Bureau Board and on the Virginia Farm Bureau Dairy Advisory Committee. Mr. Bennett is also a past director for the Alleghany/Rockbridge/Bath FSA Board. He is a lifetime member of Rich Patch United Methodist Church.

Donna M. Brooke-Alt is owner/operator and president of Brookedale Farms LLC, a goat operation, greenhouses, an Agri-tainment operation with corn maze, and event building. Ms. Brooke-Alt serves as a director of the Mineral County Farm Bureau, director of the Mineral County Family Resource Network Board, a member of the Mineral County Farmland Protection Board, and treasurer of the Mineral County 4-H/FFA Livestock Association. She is a member of the Potomac State College Ag Advisory Board and the Potomac State College Gerstell Ag Development Award Committee.

David Wayne Campbell operates a beef cattle farm consisting of commercial cow-calf and seed stock Herefords and stockers. He is a retired manager for Southern States Cooperative. Mr. Campbell is a member of Virginia Cattlemen, serving on the Policy Committee, chairman of the Washington County Service Authority and current commissioner, Smyth/Washington Cattlemen Board, treasurer/board member of Abingdon Feeder Cattle, and president of the Southwest Virginia Agriculture Association.

Robert M. Chambers, Jr., holds an interest in Brooke Farms LLC and Liberty Equipment Repair Inc. The farm consists of crops and beef cows. Mr. Chambers owns and operates CCB Investments LLC, a group of 6 NAPA Auto Parts stores. Mr. Chambers serves on the Ever Grow Cooperative Board (previously Orange Madison Cooperative).

Charles E. Horn, Jr., owns and operates Delta Springs LLC, a poultry, replacement dairy heifer, grain and beef cattle farm in Mt. Solon, VA. Mr. Horn has been a member of the North River Ruritan Club over 30 years, currently serving as treasurer.

Kyle E. House is an owner/operator of Kettle Wind Farm, LLC in Prince William County, VA. The family operation consists of 2750 acres of corn, soybeans, wheat and hay as well as 1000 acres of sod. Mr. House is a County Committee member of the Fairfax/Loudoun/Prince William FSA Office.

Melody S. Jones is an outside director and serves as chairperson of the Audit Committee. She is a self-employed sole practitioner Certified Public Accountant. Ms. Jones is a financial partner of Philippi Women's Investment Club.

Charles R. King, Jr., of Christiansburg, VA, owns and operates a farm in Montgomery County. His farm consists of a cow/calf operation, straw and small grains. Mr. King grew pumpkins until 2021 and served as past president of the Virginia Pumpkin Growers Association. Mr. King serves on the Montgomery County Farm Bureau board and is an honorary member of the Virginia Tech AGR Fraternity.

Charles B. Leech, IV, is an owner/operator of the family's dairy farm, Ingleside Dairy Farm, Inc., and an owner/manager of Ingleside Land, LLC. Mr. Leech serves as a director on the Rockbridge Farmers' Cooperative Board and a director of Virginia State Dairymen's Association.

Milton L. McPike, Jr., is an outside director. He is a retired Assistant Vice President for Cargill, Inc. in Wichita, KS.

Donald W. Reese along with his wife, Sara, own and operate Reese's Farm Fresh Produce in Halifax County, VA, a vegetable farm with two roadside stands, one at the farm in Scottsburg, VA and another in South Boston, VA. The Reese's grow a variety of produce, operate two greenhouses and own and manage over 100 acres of timber. Mr. Reese is an agriculture teacher and FFA advisor at Halifax County High School. He is also a member of Halifax County Cooperative Extension Leadership Council.

Alfred W. Stephens, Jr., is a dairy and beef cow/calf farmer and has a small produce business. Mr. Stephens serves as secretary-treasurer on the Wythe/Bland DHIA and a member of the VA Tech Dairy Science Advisory Board. Mr. Stephens also serves as a director on the AgFirst Farm Credit Bank Board.

John E. Wells is a full-time beef farmer. He is a member of the West Virginia Cattlemen's Association, Wirt County Farm Bureau, and is vice president of the Jackson County Calf Pool Cooperative. Mr. Wells also serves on the AgFirst Farm Credit Legislative Advisory Committee.

Subject to approval by the board, the Association may allow directors honorarium of $700 for attendance at meetings, committee meetings, or special assignments, and $250 for telephone conferences. In addition to the honoraria, the board chairperson was paid a quarterly retainer fee of $1,750, the audit committee chairperson was paid a quarterly retainer fee of $1,750 and the directors were paid a quarterly retainer fee of $1,500.

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**	**Other Official Activities***	**Committee Assignments**	**Compensation Paid For Other Activities****
James F. Kinsey, **Chairperson**	14	34	Compensation Committee, Governance Committee, Legislative/Knowledge Center Committee	$ 16,600
Kevin C. Craun, **Vice Chairperson**	14	38	Compensation Committee, Governance Committee, Chairperson of Legislative/Knowledge Center Committee	20,750
Melody S. Jones, **Chairperson of Audit Committee**	14	33	Chairperson of Audit Committee	15,450
Ronald L. Bennett	14	10	Risk Management, Sales and Marketing Committee	4,750
Donna M. Brooke-Alt	14	29	Chairperson of Compensation Committee, Governance Committee	15,350
David Wayne Campbell	14	25	Audit Committee	13,900
Robert M. Chambers, Jr.	14	28	Audit Committee	16,000
Charles E. Horn, Jr.	13	23	Legislative/Knowledge Center Committee, Audit Committee	13,850
Kyle E. House	14	14	Risk Management, Sales and Marketing Committee	7,100
Charles R. King, Jr.	14	23	Risk Management, Sales and Marketing Committee	13,400
Charles B. Leech, IV	13	13	Risk Management, Sales and Marketing Committee	5,500
Milton L. McPike, Jr.	12	15	Chairperson of Risk Management, Sales and Marketing Committee	7,800
Donald W. Reese	13	24	Compensation Committee, Governance Committee	10,500
Alfred W. Stephens, Jr.***	14	18	Chair of Governance Committee, Compensation Committee, Legislative/Knowledge Center Committee	7,650
John E. Wells	14	28	Audit Committee, Legislative/Knowledge Center Committee	14,200
				$ 182,800

** Includes board committee meetings and other board activities other than regular board meetings*
***Included in the Total Compensation amount in the previous table.*
****Does not include days served or compensation for days served on the AgFirst Board of Directors.*

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $287,087 for 2023, $256,057 for 2022, and $220,496 for 2021.

Transactions with Senior Officers and Directors

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

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2023, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association, for the year ended December 31, 2023.

Involvement in Certain Legal Proceedings

There were no other transactions 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 incurred by the Association for services rendered by its independent auditors for the year ended December 31, 2023 were as follows:

(dollars in thousands)	**2023**
Independent Auditors	
PricewaterhouseCoopers LLP Audit services	$ 92
Total	$ 92

Audit fees were for the annual audit of the consolidated financial statements. No other fees were paid to PricewaterhouseCoopers.

Consolidated Financial Statements

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

Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-540-886-3435, extension 5040, or writing Justin Weekley, Farm Credit of the Virginias, P.O. Box 899, Staunton, VA 24402-0899 or accessing the web site, **www.farmcreditofvirginias.com**. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report which is available on the Association's website within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association 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 web site at ***www.agfirst.com.*** The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

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

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

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

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

Melody Jones

Melody S. Jones
Chairperson of the Audit Committee

Members of Audit Committee

Donna Brooke-Alt
David Wayne Campbell
Charles E. Horn, Jr.
Charles R. King, Jr.

March 7, 2024

Report of Independent Auditors

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

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Other Information

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

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

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 7, 2024

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2023	2022	2021
Assets			
Cash	**$ 232**	$ 78	$ 529
Loans	**2,177,003**	2,089,916	2,029,094
Allowance for loan losses	**(5,362)**	(17,318)	(17,690)
Net loans	**2,171,641**	2,072,598	2,011,404
Loans held for sale	**75**	20	351
Accrued interest receivable	**11,685**	10,167	8,243
Equity investments in other Farm Credit institutions	**34,540**	25,754	16,779
Premises and equipment, net	**13,056**	12,110	12,314
Other property owned	**150**	610	704
Accounts receivable	**13,900**	12,378	32,004
Other assets	**2,633**	2,720	2,343
Total assets	**$ 2,247,912**	$ 2,136,435	$ 2,084,671
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,709,056**	$ 1,617,603	$ 1,566,004
Accrued interest payable	**5,692**	4,338	3,240
Patronage refunds payable	**32,667**	24,781	22,762
Accounts payable	**3,144**	4,014	2,842
Other liabilities	**10,287**	11,667	11,196
Total liabilities	**1,760,846**	1,662,403	1,606,044
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**10,864**	10,874	10,835
Retained earnings			
Allocated	**92,568**	92,568	92,568
Unallocated	**383,656**	370,610	375,261
Accumulated other comprehensive income (loss)	**(22)**	(20)	(37)
Total members' equity	**487,066**	474,032	478,627
Total liabilities and members' equity	**$ 2,247,912**	$ 2,136,435	$ 2,084,671

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2023	2022	2021
Interest Income			
Loans	**$ 119,324**	$ 99,120	$ 87,461
Interest Expense	**59,992**	45,075	37,804
Net interest income	**59,332**	54,045	49,657
Provision for credit losses	**129**	100	1,400
Net interest income after provision for credit losses	**59,203**	53,945	48,257
Noninterest Income			
Loan fees	**560**	793	1,443
Fees for financially related services	**27**	63	102
Patronage refunds from other Farm Credit institutions	**13,653**	21,238	31,829
Gains (losses) on sales of rural home loans, net	**227**	910	1,341
Gains (losses) on sales of premises and equipment, net	**673**	263	46
Gains (losses) on other transactions	**107**	(92)	(6)
Other noninterest income	**81**	72	84
Total noninterest income	**15,328**	23,247	34,839
Noninterest Expense			
Salaries and employee benefits	**22,435**	22,219	21,717
Occupancy and equipment	**1,576**	1,501	1,472
Insurance Fund premiums	**2,984**	3,183	2,370
Purchased services	**2,124**	1,933	1,968
Data processing	**490**	484	454
Other operating expenses	**5,446**	5,428	5,276
(Gains) losses on other property owned, net	**(52)**	32	218
Total noninterest expense	**35,003**	34,780	33,475
Income before income taxes	**39,528**	42,412	49,621
Provision (benefit) for income taxes	**16**	63	(8)
Net income	**$ 39,512**	$ 42,349	$ 49,629
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(2)**	17	3
Comprehensive income	**$ 39,510**	$ 42,366	$ 49,632

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 10,530	$ 92,568	$ 347,632	$ (40)	$ 450,690
Comprehensive income			49,629	3	49,632
Capital stock/participation certificates issued/(retired), net	305				305
Patronage distribution					
Cash			(22,000)		(22,000)
Balance at December 31, 2021	$ 10,835	$ 92,568	$ 375,261	$ (37)	$ 478,627
Comprehensive income			42,349	17	42,366
Capital stock/participation certificates issued/(retired), net	39				39
Patronage distribution					
Cash			(47,000)		(47,000)
Balance at December 31, 2022	$ 10,874	$ 92,568	$ 370,610	$ (20)	$ 474,032
Cumulative effect of change in accounting principle			**11,534**		**11,534**
Comprehensive income			**39,512**	**(2)**	**39,510**
Capital stock/participation certificates issued/(retired), net	**(10)**				**(10)**
Patronage distribution					
Cash			**(38,000)**		**(38,000)**
Balance at December 31, 2023	**$ 10,864**	**$ 92,568**	**$ 383,656**	**$ (22)**	**$ 487,066**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2023	2022	2021
Cash flows from operating activities:			
Net income	**$ 39,512**	$ 42,349	$ 49,629
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,045**	1,069	1,032
Amortization (accretion) of net deferred loan costs (fees)	**1,087**	1,213	2,014
Provision for credit losses	**129**	100	1,400
(Gains) losses on other property owned	**(66)**	(2)	186
(Gains) losses on sales of premises and equipment, net	**(673)**	(263)	(46)
(Gains) losses on sales of rural home loans, net	**(227)**	(910)	(1,341)
(Gains) losses on other transactions	**(107)**	92	6
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(15,870)**	(52,559)	(67,995)
Proceeds from sales of loans held for sale, net	**16,042**	53,800	71,629
(Increase) decrease in accrued interest receivable	**(1,518)**	(1,924)	409
(Increase) decrease in accounts receivable	**(1,522)**	19,626	(5,322)
(Increase) decrease in other assets	**87**	(377)	(8)
Increase (decrease) in accrued interest payable	**1,354**	1,098	183
Increase (decrease) in accounts payable	**(870)**	1,172	1,415
Increase (decrease) in other liabilities	**(1,736)**	402	548
Total adjustments	**(2,845)**	22,537	4,110
Net cash provided by (used in) operating activities	**36,667**	64,886	53,739
Cash flows from investing activities:			
Net (increase) decrease in loans	**(88,408)**	(63,117)	(161,790)
(Increase) decrease in equity investments in other Farm Credit institutions	**(8,786)**	(8,975)	1,184
Purchases of premises and equipment	**(2,252)**	(1,154)	(989)
Proceeds from sales of premises and equipment	**934**	552	54
Proceeds from sales of other property owned	**670**	700	452
Net cash provided by (used in) investing activities	**(97,842)**	(71,994)	(161,089)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**91,453**	51,599	147,133
Capital stock and participation certificates issued/(retired), net	**(10)**	39	305
Patronage refunds and dividends paid	**(30,114)**	(44,981)	(39,690)
Net cash provided by (used in) financing activities	**61,329**	6,657	107,748
Net increase (decrease) in cash	**154**	(451)	398
Cash, beginning of period	**78**	529	131
Cash, end of period	**$ 232**	$ 78	$ 529
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ —**	$ —	$ 249
Receipt of property in settlement of loans	**150**	610	771
Estimated cash dividends or patronage distributions declared or payable	**38,000**	47,000	22,000
Cumulative effect of change in accounting principle	**11,534**	—	—
Employee benefit plans adjustments (Note 9)	**2**	(17)	(3)
Supplemental information:			
Interest paid	**$ 58,638**	$ 43,977	$ 37,621
Taxes (refunded) paid, net	**50**	47	—

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:** Farm Credit of the Virginias, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in forty-six counties in the state of Virginia, forty-eight counties in the state of West Virginia, and two counties in the state of Maryland as follows:

Virginia: Counties of Albemarle, Alleghany, Arlington, Augusta, Bath, Bedford, Bland, Botetourt, Buchanan, Carroll, Craig, Culpeper, Dickenson, Fairfax, Fauquier, Floyd, Franklin, Giles, Grayson, Greene, Halifax, Henry, Highland, Lee, Loudoun, Madison, Montgomery, Nelson, Orange, Patrick, Pittsylvania, Prince William, Pulaski, Rappahannock, Roanoke, Rockbridge, Rockingham, Russell, Scott, Smyth, Spotsylvania, Stafford, Tazewell, Washington, Wise, and Wythe;

West Virginia: Counties of Barbour, Boone, Braxton, Cabell, Calhoun, Clay, Doodridge, Fayette, Gilmer, Grant, Greenbrier, Hampshire, Hardy, Harrison, Jackson, Kanawha, Lewis, Lincoln, Logan, Marion, Mason, McDowell, Mercer, Mineral, Mingo, Monongalia, Monroe, Nicholas, Pendleton, Pleasants, Pocahontas, Preston, Putnam, Raleigh, Randolph, Ritchie, Roane, Summers, Taylor, Tucker, Tyler, Upshur, Wayne, Webster, Wetzel, Wirt, Wood, and Wyoming; and

Maryland: Counties of Allegany and Garrett.

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 AgFirst District consisted of the Bank and sixteen District Associations. All sixteen 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 lending agreement between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for loan losses	$ 17,318	$ (11,758)	$ 5,560
Liabilities:			
Allowance for credit losses on unfunded commitments	$ –	$ 224	$ 224
Retained earnings:			
Unallocated retained earnings	$ 370,610	$ 11,534	$ 382,144

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

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

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

Nonaccrual Loans

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

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

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

Accrued Interest Receivable

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

Collateral Dependent Loans

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

Allowance for Credit Losses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Allowance for Credit Losses on Unfunded Commitments

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

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

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

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

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

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

Equity Investments in Other Farm Credit System Institutions

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

Other Investments

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

Comprehensive Income and the balance of these investments is included in Other Assets on the accompanying Consolidated Balance Sheets.

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

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

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

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

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

Additional information may be found in Note 9.

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

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

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

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

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

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

See Note 9 for additional information.

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

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

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

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

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

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

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

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

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

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

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

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

Additional information may be found in Note 8.

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

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

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

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

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

revenues, such as service charges, professional services and broker fees, are accrued and recognized into income as services are provided and the amount of fees earned is reasonably determinable.

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

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

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Credit Losses

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31,		
	2023	2022	2021
Real estate mortgage	$ 1,690,380	$ 1,650,781	$ 1,599,565
Production and intermediate-term	316,864	309,369	317,408
Agribusiness:			
Loans to cooperatives	113	66	85
Processing and marketing	69,907	48,643	34,975
Farm-related business	17,668	14,749	10,805
Rural infrastructure:			
Communication	11,387	4,625	2,654
Power and water/waste disposal	11,000	–	–
Rural residential real estate	59,687	59,976	63,602
Other:			
International	(3)	1,707	–
Total loans	$ 2,177,003	$ 2,089,916	$ 2,029,094

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

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

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

	December 31, 2023							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 25,384	$ 5,779	$ –	$ –	$ –	$ –	$ 25,384	$ 5,779
Production and intermediate-term	39,621	7,319	43	–	–	–	39,664	7,319
Agribusiness	52,157	–	–	–	–	–	52,157	–
Rural infrastructure	22,401	–	–	–	–	–	22,401	–
Total	$ 139,563	$ 13,098	$ 43	$ –	$ –	$ –	$ 139,606	$ 13,098

	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	$ 20,276	$ 2,901	$ –	$ –	$ –	$ –	$ 20,276	$ 2,901
Production and intermediate-term	21,881	6,136	132	–	–	–	22,013	6,136
Agribusiness	25,752	–	–	–	–	–	25,752	–
Rural infrastructure	4,634	–	–	–	–	–	4,634	–
Other	1,711	–	–	–	–	–	1,711	–
Total	$ 74,254	$ 9,037	$ 132	$ –	$ –	$ –	$ 74,386	$ 9,037

	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	$ 19,835	$ 3,146	$ –	$ –	$ –	$ –	$ 19,835	$ 3,146
Production and intermediate-term	21,847	4,991	197	–	–	–	22,044	4,991
Agribusiness	10,756	–	–	–	–	–	10,756	–
Rural infrastructure	2,666	–	–	–	–	–	2,666	–
Total	$ 55,104	$ 8,137	$ 197	$ –	$ –	$ –	$ 55,301	$ 8,137

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

	December 31, 2023	2022*	2021*
Real estate mortgage:			
Acceptable	96.46%	96.41%	95.59%
OAEM	1.72	1.86	2.12
Substandard/doubtful/loss	1.82	1.73	2.29
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	95.87%	94.40%	92.50%
OAEM	1.91	2.89	3.73
Substandard/doubtful/loss	2.22	2.71	3.77
	100.00%	100.00%	100.00%
Agribusiness:			
Acceptable	85.74%	80.81%	68.46%
OAEM	0.23	19.17	10.48
Substandard/doubtful/loss	14.03	0.02	21.06
	100.00%	100.00%	100.00%
Rural infrastructure:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	96.43%	96.65%	96.97%
OAEM	1.15	2.10	1.52
Substandard/doubtful/loss	2.42	1.25	1.51
	100.00%	100.00%	100.00%
Other:			
Acceptable	100.00%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	–%
Total loans:			
Acceptable	95.97%	95.66%	94.54%
OAEM	1.66	2.53	2.54
Substandard/doubtful/loss	2.37	1.81	2.92
	100.00%	100.00%	100.00%

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

Accrued interest receivable on loans of $11,685, $10,167, and $8,243 at December 31, 2023, 2022, and 2021, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

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

December 31, 2023	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 17,956	$ 3,766	$ 21,722	$ 1,668,658	$ 1,690,380
Production and intermediate-term	2,433	1,922	4,355	312,509	316,864
Agribusiness	2,131	1	2,132	85,556	87,688
Rural infrastructure	–	–	–	22,387	22,387
Rural residential real estate	871	267	1,138	58,549	59,687
Other	–	–	–	(3)	(3)
Total	$ 23,391	$ 5,956	$ 29,347	$ 2,147,656	$ 2,177,003

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

	December 31, 2022				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 4,580	$ 2,958	$ 7,538	$ 1,650,154	$ 1,657,692
Production and intermediate-term	1,903	1,171	3,074	309,185	312,259
Agribusiness	–	–	–	63,599	63,599
Rural infrastructure	–	–	–	4,627	4,627
Rural residential real estate	326	–	326	59,837	60,163
Other	–	–	–	1,743	1,743
Total	$ 6,809	$ 4,129	$ 10,938	$ 2,089,145	$ 2,100,083

	December 31, 2021				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 4,518	$ 3,820	$ 8,338	$ 1,597,356	$ 1,605,694
Production and intermediate-term	1,241	3,744	4,985	314,287	319,272
Agribusiness	220	–	220	45,741	45,961
Rural infrastructure	–	–	–	2,654	2,654
Rural residential real estate	116	415	531	63,225	63,756
Total	$ 6,095	$ 7,979	$ 14,074	$ 2,023,263	$ 2,037,337

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

	December 31, 2023
Nonaccrual loans:	
Real estate mortgage	$ 11,809
Production and intermediate-term	4,298
Agribusiness	9,829
Rural residential real estate	621
Total	$ 26,557
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 26,557
Other property owned	150
Total nonperforming assets	$ 26,707
Nonaccrual loans as a percentage of total loans	1.22%
Nonperforming assets as a percentage of total loans and other property owned	1.23%
Nonperforming assets as a percentage of capital	5.48%

	December 31,	
	2022*	2021*
Nonaccrual loans:		
Real estate mortgage	$ 13,557	$ 15,168
Production and intermediate-term	5,855	9,854
Agribusiness	–	(3)
Rural residential real estate	233	686
Total	$ 19,645	$ 25,705
Accruing restructured loans:		
Real estate mortgage	$ 3,969	$ 5,069
Production and intermediate-term	1,425	836
Agribusiness	9,678	9,005
Total	$ 15,072	$ 14,910
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Performing impaired loans:		
Real estate mortgage	$ 476	$ 444
Production and intermediate-term	1	29
Total	$ 477	$ 473
Total nonperforming loans	$ 35,194	$ 41,088
Other property owned	610	704
Total nonperforming assets	$ 35,804	$ 41,792
Nonaccrual loans as a percentage of total loans	0.94%	1.27%
Nonperforming assets as a percentage of total loans and other property owned	1.71%	2.06%
Nonperforming assets as a percentage of capital	7.55%	8.73%

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

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

	December 31, 2023			Interest Income Recognized on Nonaccrual Loans
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Year Ended December 31, 2023
Real estate mortgage	$ 517	$ 11,292	$ 11,809	$ 1,255
Production and intermediate-term	1,517	2,781	4,298	457
Agribusiness	56	9,773	9,829	1,045
Rural residential real estate	–	621	621	66
Total	$ 2,090	$ 24,467	$ 26,557	$ 2,823

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for Loan Losses:							
Balance at December 31, 2022	$ 7,645	$ 8,304	$ 1,077	$ 24	$ 261	$ 7	$ 17,318
Cumulative effect of a change in accounting principle	(4,626)	(5,972)	(986)	(21)	(148)	(5)	(11,758)
Balance at January 1, 2023	$ 3,019	$ 2,332	$ 91	$ 3	$ 113	$ 2	$ 5,560
Charge-offs	–	(352)	–	–	–	–	(352)
Recoveries	22	244	3	–	–	–	269
Provision for loan losses	(255)	40	112	10	(21)	(1)	(115)
Balance at December 31, 2023	$ 2,786	$ 2,264	$ 206	$ 13	$ 92	$ 1	$ 5,362
Allowance for Unfunded Commitments:							
Balance at December 31, 2022	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Cumulative effect of a change in accounting principle	–	169	53	–	–	2	224
Balance at January 1, 2023	$ –	$ 169	$ 53	$ –	$ –	$ 2	$ 224
Provision for unfunded commitments	35	191	16	–	–	2	244
Balance at December 31, 2023	$ 35	$ 360	$ 69	$ –	$ –	$ 4	$ 468
Total allowance for credit losses	$ 2,821	$ 2,624	$ 275	$ 13	$ 92	$ 5	$ 5,830
Allowance for Loan Losses*:							
Balance at December 31, 2021	$ 7,301	$ 9,551	$ 545	$ 16	$ 277	$ –	$ 17,690
Charge-offs	(8)	(719)	–	–	(2)	–	(729)
Recoveries	68	171	16	–	2	–	257
Provision for loan losses	284	(699)	516	8	(16)	7	100
Balance at December 31, 2022	$ 7,645	$ 8,304	$ 1,077	$ 24	$ 261	$ 7	$ 17,318
Balance at December 31, 2020	$ 6,664	$ 8,869	$ 444	$ 60	$ 349	$ –	$ 16,386
Charge-offs	–	(283)	–	–	(43)	–	(326)
Recoveries	43	179	7	–	1	–	230
Provision for loan losses	594	786	94	(44)	(30)	–	1,400
Balance at December 31, 2021	$ 7,301	$ 9,551	$ 545	$ 16	$ 277	$ –	$ 17,690

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $18,315, $20,481 and $23,657 at December 31, 2023, 2022, and 2021, respectively. Fees paid for such guaranteed commitments totaled $29, $96, and $11 for 2023, 2022, and 2021, respectively. These amounts are classified as noninterest expense.

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

Loans held for sale were $75, $20, and $351 at December 31, 2023, 2022, and 2021, respectively. Such loans are carried at the lower of cost or fair value.

Troubled Debt Restructurings

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

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

	Year Ended December 31, 2022*				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 840	$ –	$ 840	
Production and intermediate-term	250	2,891	286	3,427	
Total	$ 250	$ 3,731	$ 286	$ 4,267	
Post-modification:					
Real estate mortgage	$ –	$ 891	$ –	$ 891	$ (15)
Production and intermediate-term	250	2,843	286	3,379	–
Total	$ 250	$ 3,734	$ 286	$ 4,270	$ (15)

	Year Ended December 31, 2021*				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 2,499	$ 2,385	$ –	$ 4,884	
Production and intermediate-term	–	3,282	–	3,282	
Agribusiness	–	23,300	6,000	29,300	
Rural residential real estate	–	35	–	35	
Total	$ 2,499	$ 29,002	$ 6,000	$ 37,501	
Post-modification:					
Real estate mortgage	$ 2,499	$ 2,217	$ –	$ 4,716	$ –
Production and intermediate-term	–	3,309	–	3,309	–
Agribusiness	–	23,000	6,000	29,000	–
Rural residential real estate	–	35	–	35	–
Total	$ 2,499	$ 28,561	$ 6,000	$ 37,060	$ –

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

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

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

	Year Ended December 31,	
Defaulted troubled debt restructurings	**2022***	**2021***
Real estate mortgage	$ 67	$ –
Production and intermediate-term	358	294
Total	$ 425	$ 294

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

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

	Total TDRs		Nonaccrual TDRs	
	December 31,		December 31,	
	2022*	**2021***	**2022***	**2021***
Real estate mortgage	$ 8,222	$ 9,156	$ 4,253	$ 4,087
Production and intermediate-term	3,480	4,584	2,055	3,748
Agribusiness	9,678	9,005	–	–
Total loans	$ 21,380	$ 22,745	$ 6,308	$ 7,835
Additional commitments to lend	$ 1,466	$ 2,034		

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

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $33,565 for 2023, $24,703 for 2022 and $15,821 for 2021. The Association owned 6.45 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled $45.0 billion and shareholders' equity totaled $1.7 billion. The Bank's earnings were $265 million for 2023. In addition, the Association had $975 in investments related to other Farm Credit institutions at December 31, 2023.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2023	2022	2021
Land	$ 3,918	$ 3,937	$ 4,188
Buildings and improvements	11,961	11,276	10,873
Furniture and equipment	7,128	6,600	6,386
	23,007	21,813	21,447
Less: accumulated depreciation	9,951	9,703	9,133
Total	$ 13,056	$ 12,110	$ 12,314

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan, based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA, 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 6.36 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 6.24 percent for Prime-based loans, and the weighted average remaining maturities were 4.5 years and 2.2 years, respectively, at December 31, 2023. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.50 percent, and the weighted average remaining maturity was 15.6 years at December 31, 2023. The weighted average interest rate on all interest-bearing notes payable was 3.87 percent and the weighted average remaining maturity was 14.0 years at December 31, 2023. Gross notes payable consist of approximately 13.69 percent variable rate and 86.31 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2023. Notes payable to the Bank, as reflected on the Consolidated Balance Sheets, also includes a credit which reduces the note payable 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 C Common 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 a minimum of 2 percent of the loan amount or $1 thousand, or such higher amount as determined by the Board. 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 ratio which includes an unallocated retained earnings (URE) and URE equivalents (UREE) component. The permanent capital ratio (PCR) remains in effect.

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

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

The following sets forth the regulatory capital ratios:

				Capital Ratios as of December 31,		
Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement including Capital Conservation Buffer	2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	20.84%	21.10%	21.64%
Tier 1 Capital	6.0%	2.5%	8.5%	20.84%	21.10%	21.64%
Total Capital	8.0%	2.5%	10.5%	21.15%	21.93%	22.50%
Permanent Capital	7.0%	0.0%	7.0%	20.90%	21.28%	21.83%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	21.55%	21.89%	22.38%
URE and UREE Leverage	1.5%	0.0%	1.5%	21.06%	21.38%	22.44%

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

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

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

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

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
C Common/Voting	No	2,029,499	$ 10,148
Participation Certificates/Nonvoting	No	143,235	716
Total Capital Stock and Participation Certificates		2,172,734	$ 10,864

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.

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 that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2023, allocated members' equity consisted of $92,568 of nonqualified retained surplus.

Patronage Distributions

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

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

The patronage distributions accrued at year-end are based on estimates. The actual amounts distributed may vary from these estimates. Differences are reflected as distribution adjustments in the Consolidated Statements of Changes in Members' Equity.

Dividends

Dividends may be paid on stock and participation certificates as determined by the Board's resolution. Dividends may not be paid on common stock and participation certificates during any fiscal year with respect to which the Association has obligated itself to distribute earnings on a patronage basis pursuant to the bylaws. The rate of dividend paid on Class D Preferred Stock for any fiscal year may not be less than the rate of dividend paid on common stock or participation certificates for such year. All dividends shall be paid on a per share basis. Dividends on common stock and participation certificates shall be noncumulative without preference between classes.

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

Transfer

Common stocks and participation certificates may be transferred to persons or entities eligible to purchase or hold such equities under the bylaws. Class D Preferred Stock may be transferred in the manner set forth in the resolution authorizing its issuance.

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. Nonqualified allocated members equity beginning with the most recent allocation
2. Qualified allocated members equity beginning with the most recent allocation
3. Classes A and C Common Stock and Participation Certificates
4. Class D Preferred Stock

Liquidation

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

1. Holders of Class D Preferred Stock until an amount equal to the aggregate par value of shares of Class D Preferred Stock then outstanding has been distributed to the holders;
2. Holders of Class A Stock, Class C Stock, and Participation Certificates pro rata in proportion to the number of shares or units of each such class of stock and participation certificates then outstanding until an amount equal to the aggregate par value (or face value) of such shares or units has been distributed to the holders;
3. Holders of Allocated Surplus to the extent evidenced by qualified written notices of allocation, pro rata, on the basis of the oldest allocations first, until an amount equal to the total account has been distributed to such holders;
4. Holders of Allocated Surplus to the extent evidenced by nonqualified written notice of allocation, pro rata, on the basis of the oldest allocations first, until an amount equal the total account has been distributed to such holders;
5. Any remaining assets of the Association after such distributions shall be distributed to Patrons, past and present, in proportion to which the aggregate patronage of each such Patron bears to the total patronage of all such parties insofar as practicable, unless as otherwise provided by law.

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

	Changes in Accumulated Other Comprehensive Income by Component *(a)*		
	For the Year Ended December 31,		
	2023	**2022**	**2021**
Employee Benefit Plans:			
Balance at beginning of period	$ (20)	$ (37)	$ (40)
Other comprehensive income before reclassifications	(3)	15	1
Amounts reclassified from AOCI	1	2	2
Net current period OCI	(2)	17	3
Balance at end of period	$ (22)	$ (20)	$ (37)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*			
	For the Year Ended December 31,			
	2023	**2022**	**2021**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ (1)	$ (2)	$ (2)	See Note 9.
Amounts reclassified	$ (1)	$ (2)	$ (2)	

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

Note 8 — Fair Value Measurement

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

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

	December 31, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 1,175	$ –	$ –	$ 1,175
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 950	$ 950
Other property owned	$ –	$ –	$ 165	$ 165

	December 31, 2022			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 1,207	$ –	$ –	$ 1,207
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 3,478	$ 3,478
Other property owned	$ –	$ –	$ 749	$ 749

	December 31, 2021			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 1,586	$ –	$ –	$ 1,586
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 5,603	$ 5,603
Other property owned	$ –	$ –	$ 802	$ 802

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 to be filed. 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 $1,753 for 2023, $2,425 for 2022, and $4,050 for 2021. At December 31, 2023, 2022, and 2021, the total liability balance for the FAP Plan was $33,660, $32,568, and $39,135, respectively. The FAP Plan was 95.43 percent, 95.81 percent, and 96.17 percent funded to the projected benefit obligation as of December 31, 2023, 2022, and 2021, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were $652 for 2023, $520 for 2022, and $483 for 2021. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $160,980, $167,895, and $209,599 at December 31, 2023, 2022, and 2021, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $1,383, $1,345, and $1,289 for the years ended December 31, 2023, 2022, and 2021, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 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 2023, 2022, and 2021, $(2), $17 and $3, respectively, has been recognized as a net debit, a net credit, and a net credit to AOCI to reflect these elements.

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

In addition to the multiemployer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of $89 and a net under-funded status of $89 at December 31, 2023. Assumptions used to determine the projected benefit obligation as of December 31, 2023 included a discount rate of 5.00 percent. The expenses of these nonqualified plans included in noninterest expenses were $14, $9, and $8 for 2023, 2022, and 2021, respectively.

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2023 amounted to $8,379. During 2023, $3,229 of new loans were made and repayments totaled $4,216. In the opinion of management, none of these loans outstanding at December 31, 2023 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2023, $266,106 of commitments to extend credit and no commercial letters of credit were outstanding. At December 31, 2023, there was $468 in reserve for unfunded commitments included 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, 2023, standby letters of credit outstanding totaled $213 with expiration dates ranging from January 1, 2024 to October 25, 2024. The maximum potential amount of future payments that may be required under these guarantees was $213.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2023	2022	2021
Current:			
Federal	$ 12	$ 49	$ –
State	4	14	(8)
	$ 16	$ 63	$ (8)
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ 16	$ 63	$ (8)

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

	December 31,		
	2023	2022	2021
Federal tax at statutory rate	$ 8,301	$ 8,906	$ 10,420
State tax, net	(2)	14	7
Patronage distributions	(6,720)	(9,870)	(4,620)
Tax-exempt FLCA earnings	(1,549)	–	(6,192)
Change in valuation allowance	(58)	1,258	513
Other	44	(245)	(136)
Provision (benefit) for income taxes	$ 16	$ 63	$ (8)

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

	December 31, 2023	2022	2021
Deferred income tax assets:			
Allowance for loan losses	$ 649	$ 1,943	$ 2,323
Annual leave	415	422	404
Nonaccrual loan interest	625	716	913
Pensions and other postretirement benefits	–	–	387
Deferred incentive	287	294	–
Net Operating Loss Carryforward	2,491	2,491	–
Gross deferred tax assets	4,467	5,866	4,027
Less: valuation allowance	(3,303)	(4,711)	(3,453)
Gross deferred tax assets, net of valuation allowance	1,164	1,155	574
Deferred income tax liabilities:			
Loan origination fees	(507)	(517)	(507)
Special patronage	(579)	(579)	–
Depreciation	(78)	(59)	(67)
Gross deferred tax liability	(1,164)	(1,155)	(574)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2023, deferred income taxes have not been provided by the Association on approximately $1.6 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $3,303, $4,711, and $3,453 as of December 31, 2023, 2022 and 2021, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2023 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2020 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

2023	First	Second	Third	Fourth	Total
Net interest income	$ 14,211	$ 15,356	$ 14,671	$ 15,094	$ 59,332
Provision for (reversal of) allowance for credit losses	673	181	308	(1,033)	129
Noninterest income (expense), net	(5,901)	(4,957)	(5,107)	(3,726)	(19,691)
Net income	$ 7,637	$ 10,218	$ 9,256	$ 12,401	$ 39,512

2022	First	Second	Third	Fourth	Total
Net interest income	$ 12,943	$ 13,020	$ 14,153	$ 13,929	$ 54,045
Provision for (reversal of) allowance for loan losses	–	600	–	(500)	100
Noninterest income (expense), net	(5,832)	(4,914)	(4,638)	3,788	(11,596)
Net income	$ 7,111	$ 7,506	$ 9,515	$ 18,217	$ 42,349

2021	First	Second	Third	Fourth	Total
Net interest income	$ 12,685	$ 12,207	$ 12,025	$ 12,740	$ 49,657
Provision for (reversal of) allowance for loan losses	–	1,000	500	(100)	1,400
Noninterest income (expense), net	(4,969)	(4,209)	(4,810)	15,360	1,372
Net income	$ 7,716	$ 6,998	$ 6,715	$ 28,200	$ 49,629

Note 14 — Subsequent Events

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