

ANNUAL REPORT



CENTRAL KENTUCKY AGRICULTURAL CREDIT ASSOCIATION

2023 ANNUAL REPORT

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Management

Jonathan T. Noe	President and Chief Executive Officer
Thomas B. Whitaker	Vice President and Chief Financial Officer
Richard Medley.....	Vice President and Chief Lending Officer
Shane Turner	Vice President and Chief Risk Officer

Board of Directors

James Alvin Lyons.....	Chairman
Joe Myers	Vice Chairman
Patrick Higginbotham	Director
James C Rankin III.....	Director
Lee Blandford	Director
Mary-Lynn Hinkel	Director
Dan Grigson	Director

Message from the President

Challenges Ahead, Challenges Behind

How is it possible that another year has passed? 2023 seemed like a complete blur. Time flies when you are having fun, but it also flies when you are busy! At Central Kentucky Ag Credit, we've been busy dealing with a whole host of challenges over the last year. My message last year was about changing times, and we saw the impact of many of those changes in 2023. There weren't just staffing changes or our Admin and Lexington branch office move. We also saw big changes that involved technology, interest rates, inflation, the real estate market, and many others. There were changes that were the result of things going on throughout our country and our world that came home to central Kentucky and have as a result, impacted us all. I can't help but wonder if all this change is isolated, or we if should just expect this rate of change going forward? Either way, while the last year was challenging in several different ways, it has given me some new perspectives that I'd like to share.

For starters, a significant change in agriculture for our territory has come in the form of "foreign" buyers of farm real estate. When I say "foreign", I don't necessarily mean buyers from other countries, although that is the case at times. I am describing buyers of land that are not from within the central Kentucky area. It has been amazing to see how often the buyers of raw land and ag real estate are from different states, different parts of our own state, or even outside our country in some cases. There seems to be a large migration of people from more urban areas where real estate and costs of living are higher than those of the rural areas in our territory. This has driven land values up across the area because quite honestly, they are willing to pay more for the land than most of us already living and operating here are. This change has caused our farmers and our member-borrowers to look harder at how they might expand their own farms and operations. For us as an Ag Lender, we've had to do some reevaluating as well. For example, we are reconsidering our marketing methods, as we can no longer rely as heavily on our good name alone in reaching potential borrowers. We're now focused on how we can reach potential customers that aren't from here and have never heard of us before. We've certainly been challenged to adapt to a new dynamic in our market, and I'm confident that our team will meet it head on.

We can all relate to this next challenge created by the national economy, and it is none other than inflation. I already mentioned increased living costs. Well, much of that is the result of inflation that was on the rise at a rapid pace for most of 2023. To slow inflation, the Federal Reserve increased interest rates to "cool" the economy. We can argue about the effectiveness of the rising interest rates on slowing inflation, but there is no doubt that it has created a difficult lending and borrowing environment. For our farmers, profit margins have been decreased by increasing production and interest costs. And as an ag lender, higher interest rates have slowed the demand for borrowing money. Interest rates have more than doubled since their recent lows in 2020 and 2021. As a result, all business owners, farmers, and families alike must consider more heavily than in recent years the total costs of borrowing money.

If that weren't enough, we were also challenged by some very impactful technology changes which impacted every aspect of our business. While we knew the changes were coming, the reality is that there will always be aspects of change that you cannot prepare for. And that, is exactly what we have experienced over the last year. The Association updated and replaced several systems in 2023, but the biggest of all was the replacement of our loan accounting system. This system literally touches every other system that we use. Quite honestly, we had avoided the implementation of this new system for a long time because we knew how far reaching it would be, but ultimately, we could wait no longer. I'm sure you all are well aware of the speed at which technology is currently changing, and you either change with it or get left behind.

Whether these challenges will soon pass, or are here to stay for the long run, this past year has given me great reassurance that we can handle them here at Ag Credit. I've come to a greater realization of the value of being part of a true cooperative. Being a part of the Farm Credit System, and affiliated with the AgFirst District, we have the support of a nationwide organization that pulls together as one when faced with challenges. We are also made up of local member-borrowers with a deep love for our Central Kentucky territory. This combination of local ownership and national support is what allows us to have the best of both worlds. We aren't left on an island to struggle through the challenges of our national economy, nor are we so far removed that we can't understand and manage through the challenges of our local economies. Central Kentucky Ag Credit remains strong in a challenging environment and is here to provide you with a reliable source of financing with the same customer service you have come to know.



Jonathan T. Noe
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 Central Kentucky Agricultural Credit Association (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.

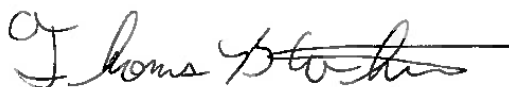
The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2023 Annual Report of Central Kentucky Agricultural Credit Association, that the report has been prepared under the oversight 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 Alvin Lyons
Chairman of the Board



Jonathan T. Noe
Chief Executive Officer



Thomas B. Whitaker
Chief Financial Officer

March 7, 2024

Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	December 31,				
	2023	2022	2021	2020	2019
Balance Sheet Data					
Cash	\$ 835	\$ 1,683	\$ 790	\$ 2,009	\$ 2,468
Loans	713,736	683,497	644,696	597,624	533,741
Allowance for loan losses	(2,522)	(4,417)	(4,476)	(4,637)	(4,257)
Net loans	711,214	679,080	640,220	592,987	529,484
Equity investments in other Farm Credit institutions	12,749	9,695	6,657	6,873	7,106
Other assets	17,492	16,490	20,220	19,160	16,606
Total assets	\$ 742,290	\$ 706,948	\$ 667,887	\$ 621,029	\$ 555,664
Notes payable to AgFirst Farm Credit Bank*	\$ 588,371	\$ 565,072	\$ 537,512	\$ 506,250	\$ 452,919
Accrued interest payable and other liabilities with maturities of less than one year	10,090	9,380	10,575	8,642	7,192
Total liabilities	598,461	574,452	548,087	514,892	460,111
Capital stock and participation certificates	4,494	4,403	4,360	4,112	3,910
Retained earnings					
Allocated	102,850	95,960	86,217	74,792	67,498
Unallocated	36,485	32,133	29,223	27,233	24,145
Total members' equity	143,829	132,496	119,800	106,137	95,553
Total liabilities and members' equity	\$ 742,290	\$ 706,948	\$ 667,887	\$ 621,029	\$ 555,664
Statement of Income Data					
Net interest income	\$ 18,490	\$ 16,700	\$ 15,467	\$ 14,461	\$ 13,257
Provision for credit losses	770	—	—	400	—
Noninterest income (expense), net	(4,022)	714	6,228	1,610	(951)
Net income	\$ 13,698	\$ 17,414	\$ 21,695	\$ 15,671	\$ 12,306
Key Financial Ratios					
Rate of return on average:					
Total assets	1.90%	2.53%	3.40%	2.69%	2.30%
Total members' equity	9.67%	13.83%	19.08%	15.58%	13.29%
Net interest income as a percentage of average earning assets	2.65%	2.48%	2.48%	2.54%	2.55%
Net (chargeoffs) recoveries to average loans	(0.009)%	(0.009)%	(0.026)%	(0.004)%	(0.004)%
Total members' equity to total assets	19.38%	18.74%	17.94%	17.09%	17.20%
Debt to members' equity (:1)	4.16	4.34	4.58	4.85	4.82
Allowance for loan losses to loans	0.35%	0.65%	0.69%	0.78%	0.80%
Permanent capital ratio	19.52%	19.06%	18.38%	17.46%	18.12%
Common equity tier 1 capital ratio	19.33%	18.92%	18.22%	17.29%	17.92%
Tier 1 capital ratio	19.33%	18.92%	18.22%	17.29%	17.92%
Total regulatory capital ratio	19.71%	19.61%	18.99%	18.11%	18.80%
Tier 1 leverage ratio**	18.12%	17.44%	16.74%	15.72%	15.99%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	17.51%	16.82%	16.31%	15.36%	15.62%
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ 4,992	\$ 4,432	\$ 7,737	\$ 5,285	\$ 4,161
Nonqualified retained earnings	6,894	9,295	10,684	7,298	6,242

* 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 Central Kentucky Agricultural Credit Association (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 Kentucky. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association may be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Unaudited 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 Unaudited Quarterly reports are also available upon request free of charge on the Association's website, www.agcreditonline.com, or by calling 1-859-253-3249, extension 608, or writing Thomas B. Whitaker, Central Kentucky Agricultural Credit Association, P. O. Box 4100, Lexington, KY 40544-4100. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

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* — The allowance for credit losses represents the estimated current expected credit losses over the remaining contractual life of financial assets measured at amortized cost and certain off-balance sheet credit exposures. The 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 is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The ACL is determined according to generally accepted accounting principles and is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including current production and economic conditions, loan portfolio composition, collateral value, portfolio quality and prior loan loss experience.

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

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

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

ECONOMIC CONDITIONS

The agricultural economy of the territory serviced by the Association is very diverse. It is comprised of a significant beef concentration, as well as equine and grain. The cattle industry experienced record prices in 2023 as the U.S. cow herd contracted due to significant drought in the southern plains. There are no signs of herd expansion occurring, therefore there is optimism going into Spring of 2024 for beef producers as cattle numbers nationwide are down, driving up demand and prices. The equine industry is performing well. The grain market has been steady and has returned to more normalized prices. Overall, 2023 proved to be a profitable year for grain producers in our territory as they experienced excellent yields. The outlook for 2024 will be modest returns as the commodity price outlook appears to be just above break-even levels given normal yields.

Farm size varies and many borrowers in the region have diversified farming operations. This factor, along with numerous opportunities for non-farm employment in the area, significantly impacts the level of dependency on any given commodity. Farm real estate values are strong throughout the territory.

The Association's primary competition continues to come from several banks and one System institution. There has been little change in our market base over the past year. Continued efforts are being made to expand services, increase public knowledge of our services and streamline our current delivery of products to enhance our existing portfolio.

LOAN PORTFOLIO

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

Loan Type	December 31,					
	2023		2022		2021	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 517,712	72.54 %	\$ 497,391	72.77 %	\$ 453,888	70.40 %
Production and intermediate-term	170,861	23.94	162,989	23.85	170,704	26.48
Rural residential real estate	10,688	1.50	9,332	1.37	9,257	1.44
Processing and marketing	5,652	0.79	5,289	0.77	2,221	0.34
Communication	993	0.14	—	—	—	—
Water and Waste Disposal	792	0.11	—	—	—	—
Farm-related business	7,038	0.98	8,496	1.24	8,626	1.34
Total	\$ 713,736	100.00 %	\$ 683,497	100.00 %	\$ 644,696	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/operating unit for the past three years is as follows:

Branch/Operating Unit	December 31,		
	2023	2022	2021
Lebanon	26.07%	25.66%	27.81%
Lexington	21.81	21.25	21.12
Paris	16.49	16.77	15.57
Danville	13.71	13.76	13.16
Stanford	7.98	8.58	8.59
Richmond	6.98	7.35	7.77
Frankfort	6.62	6.53	5.87
Participations Purchased	0.34	0.10	0.11
	100.00%	100.00%	100.00%

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

The major commodities in the Association loan portfolio are shown below. The predominant commodities are beef cattle, row crops, horses, and hay/pasture, which constitute approximately 84 percent of the entire portfolio.

Commodity Group	December 31,					
	2023		2022		2021	
	<i>(dollars in thousands)</i>					
Beef Cattle	\$ 280,773	39%	\$ 278,407	41%	\$ 238,851	37%
Row Crops	120,150	17	107,991	16	102,991	16
Horses	100,729	14	92,857	13	95,572	15
Hay/Pasture	99,205	14	92,543	13	87,081	14
Tobacco	15,356	2	18,402	3	20,213	3
Ag Services	12,477	2	11,436	2	14,619	2
Rural Home	10,566	1	8,013	1	7,747	1
Dairy	895	1	6,352	1	6,938	1
Other	73,585	10	67,496	10	70,684	11
Total	\$ 713,736	100%	\$ 683,497	100%	\$ 644,696	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 beef cattle, horse producers, row crop producers and hay/pasture producers. Although a large percentage of the loan portfolio is concentrated in these commodities, many of these operations are diversified within their enterprise, reducing overall risk exposure. Demand for beef, prices of field grains, and international trade are some of the factors affecting the price of these commodities. At December 31, 2023, the Association’s total commitments to its ten largest borrowers was \$62,866, representing 8.81 percent of total loans. The concentration of large loans has increased somewhat over the past several years. The agricultural enterprise mix of these loans however is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association’s territory, the borrowers’ ability to supplement borrowings with non-farm income, and the level of guarantees obtained on the portfolio.

The increase in gross loan volume for the twelve months ended December 31, 2023, is primarily attributed to increases in both production and farm real estate loans. The Association has attracted some large real estate loans over the past few years in addition to normal business. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in November and declines in the winter months as commodities are marketed and proceeds are applied to repay the operating loans.

During 2023, the Association continued activity in the selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk.

The main commodity type in the Participations Purchased portfolio is cattle which accounts for 63.37% of the portfolio. While these participations help spread total portfolio concentration, they also possess unique risks that include exposure to general economic trends, changes in government policy and counterparty risk. The Association manages this risk through routine monitoring, borrowing base reporting and policy driven portfolio limits. Counterparty risks on the entire Participations Purchased portfolio are reduced by the inclusion of System institutions as the lead lender in 48.42% of the portfolio.

Loan Participations:	December 31,		
	2023	2022	2021
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 2,687	\$ 824	\$ 865
– Other Institutions	2,862	2,982	2,942
Participations Sold			
– FCS Institutions	(84,019)	(85,651)	(82,111)
– Other Institutions	(18,482)	(14,706)	(13,776)
Total	<u>\$ (96,952)</u>	<u>\$ (96,551)</u>	<u>\$ (92,080)</u>

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 and sold into the secondary market loans totaling \$4,929.

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.

At December 31, 2023, the guaranteed balance of designated loans under these agreements was \$71,088.

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 one hundred thousand dollars. 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	99.66%	99.64%	99.41%
Substandard	0.34%	0.36%	0.58%
Doubtful/Loss	0.00%	0.00%	0.01%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. The Administrative Office Credit Department monitors and works with loans classified as high-risk. The high-risk assets, including accrued interest, are detailed in the following table:

High-risk Assets	December 31,		
	2023	2022	2021
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 872	\$ 1,009	\$ 1,569
Restructured loans	–	1,479	1,741
Accruing loans 90 days past due	319	–	–
Total high-risk loans	1,191	2,488	3,310
Other property owned	–	–	–
Total high-risk assets	\$ 1,191	\$ 2,488	\$ 3,310
Ratios			
Nonaccrual loans to total loans	0.12%	0.15%	0.24%
High-risk assets to total assets	0.16%	0.35%	0.50%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the full collection of principal and/or future interest accruals under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased \$137 or 13.58 percent in 2023. This decrease resulted primarily from the reinstatement of accounts to accrual status along with charge offs. Of the \$872 in nonaccrual volume at December 31, 2023, \$523 or 59.98 percent, compared to 30.23 percent and 14.60 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.

Allowance for Loan Losses

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

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

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2023	2022	2021
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 4,417	\$ 4,476	\$ 4,637
Cumulative effect of change in accounting principle	(2,585)	–	–
Charge-offs:			
Real Estate Mortgage	(17)	–	–
Production and intermediate-term	(45)	(64)	(163)
Total charge-offs	(62)	(64)	(163)
Recoveries:			
Production and intermediate-term	1	5	2
Total recoveries	1	5	2
Net (charge-offs) recoveries	(61)	(59)	(161)
Provision for (reversal of allowance for) loan losses	751	–	–
Balance at end of year	<u>\$ 2,522</u>	<u>\$ 4,417</u>	<u>\$ 4,476</u>
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	<u>(0.009)%</u>	<u>(0.009)%</u>	<u>(0.026)%</u>

The net loan charge-offs were primarily associated with charge-offs taken on one loan account. The decrease in the allowance for loan losses was associated with the net loan charge-offs taken during the year, and no provision made to loan reserves.

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

Allowance for Loan Losses by Type	December 31,		
	2023	2022	2021
	<i>(dollars in thousands)</i>		
Real estate mortgage	\$ 1,752	\$ 3,668	\$ 3,672
Production and intermediate-term	684	678	748
Agribusiness	43	43	30
Communication	4	–	–
Energy and Water/Waste Disposal	3	–	–
Rural residential real estate	36	28	26
Total loans	<u>\$ 2,522</u>	<u>\$ 4,417</u>	<u>\$ 4,476</u>

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

Allowance for Loan Losses as a Percentage of:	December 31,		
	2023	2022	2021
Total loans	0.35%	0.65%	0.69%
Nonperforming loans	211.75%	177.53%	135.23%
Nonaccrual loans	289.22%	437.76%	285.28%

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was \$18,490, \$16,700 and \$15,467 in 2023, 2022 and 2021, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

	Volume*	Rate	Total
12/31/23 - 12/31/22			
Interest income	\$ 1,168	\$ 5,290	\$ 6,458
Interest expense	461	4,207	4,668
Change in net interest income	\$ 707	\$ 1,083	\$ 1,790
12/31/22 - 12/31/21			
Interest income	\$ 1,628	\$ 2,534	\$ 4,162
Interest expense	365	2,564	2,929
Change in net interest income	\$ 1,263	\$ (30)	\$ 1,233

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

Noninterest Income

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

Noninterest Income	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2023	2022
	2023	2022	2021	2022	2021
	<i>(dollars in thousands)</i>				
Loan fees	\$ 818	\$ 916	\$ 4,193	(10.70)%	(78.16)%
Patronage refund from other Farm Credit Institutions	5,216	8,365	11,663	(37.64)	(28.27)
Gains (losses) on sales of rural home loans	11	74	103	(85.14)	(27.73)
Gains (losses) from sales of premises and equipment, net	–	1,407	20	(100.00)	6,899.57
Gains (losses) on other transactions	(2)	–	–	–	–
Insurance Fund refunds	–	–	–	–	–
Other noninterest income	2	6	9	(66.67)	(29.94)
Total noninterest income	\$ 6,045	\$ 10,768	\$ 15,988	(43.86)%	(32.64)%

Regarding patronage refunds received from other Farm Credit Institutions, the Association received \$5,216 in a patronage refund and no special distribution from the Bank for the year ended December 31, 2023, compared to \$5,186 and \$3,144 for 2022, and \$4,534 and \$7,129 for 2021.

Noninterest Expense

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

Noninterest Expense	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2023	2022
	2023	2022	2021	2022	2021
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 6,577	\$ 5,734	\$ 5,576	14.70 %	2.83 %
Post-retirement benefits	748	830	1,206	(9.88)	(31.18)
Occupancy and equipment expense	441	476	361	(7.35)	31.96
Insurance Fund premium	922	982	725	(6.11)	35.43
(Gains) losses on other property owned, net	–	–	–	–	–
Other operating expense	1,348	2,035	1,870	(33.76)	8.85
Total noninterest expense	\$ 10,036	\$ 10,056	\$ 9,738	(0.20)%	3.28 %

Salaries and employee benefits increased in 2023, as compared with 2022, primarily due to increased costs associated with additional staffing, merit increases, bonuses, and health insurance. Post-retirement benefits decreased \$82 or 9.88 percent in 2023 as compared with 2022. The primary reason for the decrease in post-retirement benefits was a decrease in pension expense due to an increase in the discount rate used to calculate the pension expense. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

Occupancy and equipment expense decreased \$35 or 7.35 percent in 2023 as compared with 2022. This decrease is primarily associated with reduced depreciation expense caused by the sale of office space. Insurance Fund premiums decreased \$60 or 6.11 percent for the twelve months ended December 31, 2023, compared to the same period of 2022 due primarily to flatter growth in the size of the Association's notes payable with AgFirst and a decrease in the insurance premium rates. Other operating expenses decreased \$687 or 33.76 percent in 2023 as compared with 2022. The decrease is primarily associated with a reduction in several expense items including travel expense, net nonaccrual expense, public and member relations, guarantee loan fees, and professional services expense.

Income Taxes

The Association recorded a provision for income taxes of \$31 for the year ended December 31, 2023, as compared to a benefit of \$2 for 2022 and a provision of \$22 for 2021. Refer to Note 2, *Summary of Significant Accounting Policies, 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	1.90%	2.53%	3.40%
Return on average members' equity	9.67%	13.83%	19.08%
Net interest income as a percentage of average earning assets	2.65%	2.48%	2.48%
Net (charge-offs) recoveries to average loans	(0.009)%	(0.009)%	(0.026)%

The primary factors influencing the decreases in return on average assets and return on members' equity were proportionately smaller increases in association net earnings than the increase in assets and members' equity.

Key factors in the growth of net income for future years will be continued improvement in net interest and noninterest income along with a moderate increase in operating expenses and additional provisions made for loan losses. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue to remain healthy and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds." Interest rates on both variable and fixed rate notes payable 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 notes were 8.61 percent for SOFR-based loans, 8.83 percent for Prime-based loans, and the weighted average remaining maturities were 4.3 years and 1.4 years, respectively, at December 31, 2023. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) notes payable which are match funded by the Bank was 5.19 percent and the weighted average remaining maturity was 15.8 years at December 31, 2023. The weighted average interest rate on all interest-bearing notes payable was 3.70 percent and the weighted average remaining maturity was 14.2 years at December 31, 2023.

Gross notes payable consist of approximately -8.17 percent variable rate and 108.17 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 notes payable balance and corresponding interest expense. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Total notes payable to the Bank at December 31, 2023, was \$588,371 as compared to \$565,072 at December 31, 2022 and \$537,512 at December 31, 2021. The increase of 4.12 percent compared to December 31, 2022, and the increase of 5.13 percent at December 31, 2022 compared to December 31, 2021, were attributable to the loan growth in the Association. The average volume of outstanding notes payable to the Bank was \$576,722 and \$557,391 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 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 investments and secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

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

Funds Management

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

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

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify, and control risk associated with the loan portfolio. The Association utilizes differential pricing for its loans based on credit risk, length of maturity, service cost, and market variables, thereby giving the Association the ability in large part to control its interest rate margins. Net interest income as a percentage of average earning assets was 2.65% for 2023, 2.48% for 2022, and 2.48% for 2021. The increase in net interest income as a percentage of average earning assets for 2023 as compared to the previous year is primarily due to a increase in interest rates and weak loan growth in 2023.

Relationship with the Bank

In both financial and non-financial areas, the Association has a materially interdependent 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 require additional capital contributions from the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, included 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.

The Association receives a patronage refund from the Bank which it records on an accrual basis.

In addition to the financial relationships described, the Association may act as a service provider to the Bank on certain participation loans that the Association has sold to the Bank. The Bank also provides operational assistance to the Association in many areas including cash management, accounting and reporting, human resources, computer networks and technology.

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 2020 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2023, increased 8.55 percent to \$143,829 from the December 31, 2022, total of \$132,496. At December 31, 2022, total members' equity increased 10.60 percent from the December 31, 2021 total of \$119,800. The increases were primarily attributed to net income, partially offset by cash patronage paid.

Total capital stock and participation certificates were \$4,494 on December 31, 2023, compared to \$4,403 on December 31, 2022 and \$4,360 on December 31, 2021. The increase was primarily attributed to an increase in borrower purchases of stock and participation certificates.

FCA regulations require all Farm Credit institutions to maintain minimum levels of several regulatory capital and leverage 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 total surplus and core surplus ratios with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios, as well as a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio remains in effect. The capital ratios are calculated by dividing various levels of capital by a risk-adjusted asset base

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of		
				2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	2.5%	7.0%	19.33%	18.92%	18.22%
Tier 1 Capital Ratio	6.0%	2.5%	8.5%	19.33%	18.92%	18.22%
Total Capital Ratio	8.0%	2.5%	10.5%	19.71%	19.61%	18.99%
Permanent Capital Ratio	7.0%	-%	7.0%	19.52%	19.06%	18.38%
Non-risk-adjusted:						
Tier 1 Leverage Ratio **	4.0%	1.0%	5.0%	18.12%	17.44%	16.74%
UREE Leverage Ratio	1.5%	-%	1.5%	17.51%	16.82%	16.31%

* Capital conservation buffers became fully effective January 1, 2020.

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

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

Risk-adjusted assets have been defined by FCA regulations as 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. Calculation of permanent capital ratio 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 leverage ratios are calculated by dividing various types of capital by total regulatory assets (not risk-adjusted). For all periods represented, the Association exceeded the minimum regulatory standard for all of the ratios.

The increase in the Association's regulatory capital ratios for December 31, 2023 was attributed to increased retained earnings from net income. 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 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 to borrowers on a patronage basis all or any portion of its available patronage sourced 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) purchase money mortgages and sales contracts, (b) participation loans purchased, (c) loans specified in advance as non-patronage, (d) the Association's defined benefit retirement plan income, (e) extraordinary income resulting from a change in accounting procedure, and (f) other non-patronage income as allowed by law, including lease income, the 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 allocations. The Association declared total patronage allocations of \$11,886 in 2023, \$13,727 in 2022, and \$18,421 in 2021. Of those amounts, the Association declared a cash patronage payable of \$4,992 in 2023, \$4,432 in 2022 and \$7,737 in 2021. The remaining patronage allocations were in the form of allocated retained earnings.

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

The Association’s mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers.

- * 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.

Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. Actual program results in 2023 were 100% of program goals or better for young, beginning and small farmers.

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

	As of December 31, 2023			
	Number of Loans		Amount of Loans	
	Actual	Goal	Actual	Goal
Young	1,312	1,350	\$112,535	\$110,000
Beginning	1,487	1,380	160,278	135,000
Small	5,093	5,075	379,231	355,000

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

The 2017 USDA-NASS Ag census data has been used as a benchmark to measure penetration of the Association’s marketing efforts. The census data indicated that within the Association’s chartered territory (counties) there were 24,713 reported farmers of which by definition 2,600 or 10.52 percent were Young, 7,066 or 28.59 percent were Beginning, and 23,477 or 95.00 percent were Small. Comparatively, as of December 31, 2023, the demographics of the Association’s agricultural portfolio contained 3,427 farmers, of which by definition 685 or 19.99 percent were Young, 872 or 25.44 percent were Beginning, and 2,608 or 76.10 percent were Small.

In addition to our marketing strategies, in 2023 the Association utilized the following strategies and outreach programs:

- Support of 4H, FFA and young farmer organizations through sponsorships and donations.
- Offering loan guarantees and interest rate subsidies through Preferred Lender Programs with Farm Services Administration (FSA).
- FSA Loan Guarantee Fee Subsidy Program.
- Reduced Rate Coordination Programs with the Kentucky Agricultural Finance Corporation.
- Utilizing the Central Kentucky Ag Start Program, a program developed in collaboration with a Young Farmers Advisory Council.

The Association met its 2023 qualitative goals in coordination of programs, FSA Guarantee Loan Volume, Reduced Rate Coordination Program, and statewide youth program advertising and sponsorships.

The Business Analyst and the Marketing Specialist coordinate the Association’s efforts for YBS programs. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the Board of Directors on a quarterly basis.

Demographics

The Association has used the 2017 USDA-NASS Ag Census as our source of demographic data for the counties in our territory. There are several differences in the methods by which the demographic and YBS Farmer data is presented. Young farmers are defined by the FCA as 35 years old or less. The USDA-NASS Ag Census demographic stratification breaks at 34 years old, which was used to compare to FCA’s definition. Beginning farmers are defined by the FCA as having 10 years or less farming experience. There is no measurement matching this definition in the USDA-NASS Ag Census; however the census does identify farmers on their current farm less than 10 years. That statistic may include beginning farmers, but may also include experienced farmers who have recently changed farmsteads. As with the case of the Young information, the Beginning information in the USDA-NASS Ag Census is not an exact comparison to the FCA definition, but will be utilized as the best comparison available. The FCA Small definition matches with the USDA-NASS Ag Census delineation of farm entities with sales of less than \$250 thousand. Other data differences: The farmers experience is as of the date of the USDA-NASS Ag Census, while the Association data is compiled as to the date the loan was made. Small farmers is by each individual farm entity from the USDA-NASS Ag Census data, while the Association data is compiled as of the date of the loan and represents the total value of sales of closely related entities rather than individual entities. The USDA-NASS Ag Census data reflects all farms whether they use debt or not. While the statistical results of the USDA-NASS Ag Census do not match the FCA definitions

exactly and there are timing issues, they do provide a consistent source of measurement with which to assess Association targets and goals.

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, developments that had or could have a material impact on patronage or dividends, changes in patronage policies and practices, 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 Kentucky:

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
2429 Members Way Lexington	Administrative	Owned
2429 Members Way Lexington	Branch	Owned
485 N Danville Bypass Danville	Branch	Owned
1000 Ival James Boulevard Richmond	Branch	Owned
201 Commerce Drive Paris	Branch	Owned
842 West Main Lebanon	Branch	Owned
106 Agriculture Way Stanford	Branch	Owned
1120 US Highway 127 South Frankfort	Branch	Leased

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

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

Senior Officer	Position
Jonathan T. Noe	<i>President and Chief Executive Officer - since July, 2022</i>
Richard Medley	<i>Vice President and Chief Lending Officer – since April, 2022</i>
Thomas B. Whitaker	<i>Vice President and Chief Financial Officer – since April, 2023</i>
Shane Turner	<i>Vice President and Chief Risk Officer – since October, 2017</i>

The business experience for the past five years for senior officers is with the Farm Credit System.

The total amount of compensation (in whole dollars) earned by the CEO and the highest paid officers (excluding the CEO) as a group during the years ended December 31, 2023, 2022 and 2021, is presented in the following tables. The first table presented illustrates actual compensation received in cash in the form of salary and bonus.

Name of Individual or Number in Group	Received Compensation			
	Year	Salary	Bonus	Total Received (a)
Jonathan T. Noe	2023	\$ 286,096	\$ 4,750	\$ 290,846
Jonathan T. Noe	2022	\$ 237,565	\$ 6,000	\$ 243,565
5	2023	\$ 701,435	\$ 56,399	\$ 757,834
5	2022	\$ 736,185	\$ 55,520	\$ 791,705
5	2021	\$ 829,524	\$ 65,709	\$ 895,233

The table below discloses forms of perquisites and other noncash compensation and these items are described in detail in the subsequent paragraphs, which do not reflect actual cash compensation received by the CEO or officers presented. The total of all cash (a) and noncash (b) compensation for the CEO and officers is also presented here.

Name of Individual or Number in Group	Year	Perquisites and Other Compensation			Total Compensation (a+b)
		Change in Pension**	Perq./ Other*	Total Perq. and Other (b)	
Jonathan T. Noe	2023	\$ 196,332	\$ 10,702	\$ 207,034	\$ 497,880
Jonathan T. Noe	2022	\$ (181,875)	\$ 8,414	\$ (173,461)	\$ 70,104
5	2023	\$ 211,986	\$ 16,299	\$ 228,285	\$ 986,119
5	2022	\$ (669,903)	\$ 11,138	\$ (658,765)	\$ 132,940
5	2021	\$ 301,463	\$ 11,286	\$ 312,749	\$ 1,207,982

*The Perquisites/Other amount disclosed in the above chart includes automobile compensation, cost of group insurance in excess of \$50,000, and spousal travel.

**This figure is a third party actuarial determination of the change in present value of the estimated pension cash flows. This does not represent any actual cash compensation provided to any employee, but is simply a change in the calculation that is affected by a number of assumptions and inputs.

The total compensation paid during 2023 to any senior officer, or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

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

The discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa.

In addition to the discount rate, other factors such as increases in compensation or additional years of service for plan participants will also cause a change in the present value of pension benefits. Specifically, an additional year of service leading up to the earliest unreduced retirement date and increases in compensation may lead to increases in present value of pension benefits. An additional year of service past the unreduced retirement date may lead to a decrease in the present value of pension benefits.

For pension values at December 31, 2023, an increase in the discount rate assumption caused pension values to decrease, but this was offset by other factors such as increases in compensation and additional years of service for plan participants. For pension values at

December 31, 2022 and December 31, 2021, the increase was due to a decrease in the discount rate and an increase in benefit accruals due to the passage of another year.

On February 4, 2015, the FCA Board approved the final rule, “Disclosure to Shareholders; Pension Benefit Disclosures.” The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a “highly compensated employee” solely because of payments related to or change(s) in value of the employee’s qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan.

Additional information on pension benefits related to the CEO and the highest paid officers as a group for the year ended December 31, 2023 is as follows:

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits**	Payments During 2023
Jonathan T. Noe	2023	Independent Associations Retirement Plan	23	\$ 744,102	\$ –
Senior Officers and Highly Compensated Employees:					
5	2023	Independent Associations Retirement Plan	23	\$ 1,857,409	\$ –

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

**This figure is a third party actuarial determination of the present value of the estimated pension cash flows. Please refer to information provided above giving further explanation of assumptions used in order to calculate the present value of pension benefits.

In addition to a base salary, the branch lending staff can earn additional compensation under an incentive plan. There were no material changes to the incentive plan adopted for 2023 as the plan design continues to motivate new business development. In addition to this incentive plan for the lending staff, the entire Association staff, including senior officers, may receive a bonus at the discretion of the Board of Directors. While discretionary, these bonuses are generally based on the efforts of staff, including senior officers, in striving to accomplish business plan objectives such as profitability, growth, credit quality and overall performance. All of these bonuses were paid in the 2023 calendar year, except for incentive plan bonuses for October and November 2023. Those bonuses were earned and accrued in 2023, but were not paid until January 2024. Additionally, 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.

Directors

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking 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 \$43,882 for 2023, \$18,578 for 2022 and \$9,593 for 2021.

Subject to approval by the board, the Association may allow directors an honoraria of \$1,000 for attendance at meetings, committee meetings, or special assignments. A retainer is also paid to the chairman of the board of directors, the chairman of the audit and human resources committees, and other directors in the amount of \$5,000, \$4,500, and \$4,000, respectively. An additional \$200 dollar honorarium is paid to directors who serve as representatives to the District Advisory Committee, the Legislative Advisory Committee, and the Nominating Committee for AgFirst, FCB. In 2023, total cash compensation paid to directors as a group was \$153,811. No non-cash compensation was paid to directors in 2023.

The following represents certain information regarding the directors of the Association and their principal occupations:

James Alvin Lyons was re-elected to a four-year term on the Board of Directors at the 2020 Annual Meeting. His current term expires in 2024. He presently serves as Chairman of the Board, a position he has held since April 2011. During the past 5 years, Mr. Lyons has produced alfalfa, corn, soybeans, wheat, has a commercial cow-calf program and backgrounds feeder cattle on his farming operation in Scott County. Mr. Lyons serves as a Board member of the Scott County Farm Bureau and is a member of the Scott County Beef Improvement Board. From 2018 through 2021, Mr. Lyons served as a director for the AgFirst Farm Credit Bank. During 2023, Mr. Lyons served 10 days at Association Board meetings, 10 days in other official activities, participated in conference calls, and was paid \$24,350 in compensation.

Joe Myers was re-elected to a four-year term on the Board of Directors at the 2022 Annual Meeting. His current term expires in 2026. He presently serves as Vice Chairman of the Board, a position he has held since July 2022. During the past 5 years, Mr. Myers has owned and operated Myers Angus Farm, an 80 head purebred angus cow operation in Mercer County, marketing registered bulls, females, and embryos throughout Kentucky, multiple states, and foreign countries. He also serves as a Beef Sire Analyst for Select Sires,

Inc. where he is responsible for purchasing/leasing bulls to enter into the A.I. Genetics Program. Mr. Myers also serves on the District Advisory Committee for the AgFirst Farm Credit Bank. During 2023, Mr. Myers served 10 days at Association Board meetings, 15 days in other official activities, participated in conference calls, and was paid \$28,650 in compensation.

Patrick Higginbotham was re-elected to a four-year term on the Board of Directors at the 2023 Annual Meeting. His current term expires in 2027. During the past five years, Mr. Higginbotham has served as a pharmacist at the Veterans Administration Hospital in Lexington, Kentucky. He also serves as an adjunct faculty member at the University of Kentucky College of Pharmacy. He runs a horse boarding operation and produces hay on his farm in Fayette County. In addition, Mr. Higginbotham serves on the Fayette County Farm Bureau Board of Directors, and is a deacon for Trinity Christian Fellowship Church. He also serves on the Fayette County Ag Development Council. During 2023, Mr. Higginbotham served 10 days at Association Board meetings, 8 days in other official activities, participated in conference calls, and was paid \$20,350 in compensation.

James C. ("Jim") Rankin III was re-elected to a four-year term on the Board of Directors at the 2020 Annual Meeting. His current term expires in 2024. He served as Vice Chairman of the Board from February 2014 until July 2022. During the past 5 years, Mr. Rankin has produced alfalfa and mixed grass hay for use in his farming operation in Bourbon County. Mr. Rankin owns thoroughbred mares and boards mares and foals. In addition, Mr. Rankin has a cow/calf operation and backgrounds feeder cattle. During 2023, Mr. Rankin served 9 days at Association Board meetings, 7 days in other official activities, participated in conference calls, and was paid \$18,200 in compensation.

Lee Blandford was re-elected to a four-year term on the Board of Directors at the 2021 Annual Meeting. Her current term expires in 2025. During the past 5 years, Ms. Blandford has served as Chief Financial officer for Clements Ag Supply, Inc. in Springfield, Kentucky. She owns and leases land in Washington County where she operates a cow/calf operation, backgrounds feeder cattle, and produces 300 acres of hay. Ms. Blandford also has a 50% ownership interest in Blandford Mills, LLC, a feed and farm supply business. Since 2019, Ms. Blandford has served as Chair of the Board Audit Committee. During 2023, Ms. Blandford served 10 days at Association Board meetings, 5 days in other official activities, participated in conference calls, and was paid \$17,850 in compensation.

Pursuant to the Agricultural Credit Act of 1987 and in compliance with Association Bylaws, the Association Board of Directors first elected during 2001 a member to the Board who is not a director, officer, employee or shareholder of any Farm Credit System institution (i.e. Outside Director).

Dan Grigson was first elected as an Outside Director by the Association Board of Directors in 2017. He was re-elected in 2021. His current term expires in April 2025. Mr. Grigson retired from the University of Kentucky College of Agriculture in 2016 where he served as an Agricultural Extension Agent from 1974 through 2016. He currently serves as Funeral Director's Assistant at Spurlin Funeral Home. During the past 5 years Mr. Grigson has served as a director on the Buffalo Springs Cemetery Board. He is currently Vice President of the Lincoln County Fair Board, and Vice President of the Lincoln County Farm Bureau Federation. Mr. Grigson also serves on the District Legislative Advisory Council for the AgFirst Farm Credit Bank. During 2023, Mr. Grigson served 10 days at Association Board meetings, 12 days in other official activities, participated in conference calls, and was paid \$24,550 in compensation.

Mary-Lynn Hinkel was first elected as an Outside Director by the Association Board of Directors in 2014. She was reelected in 2020, and her current term expires in April 2024. Ms. Hinkel retired from CMTA Consulting Engineers in 2019 where she served as HR Staffing Coordinator, recruiting staff for six offices located throughout the U.S. Previously, Ms. Hinkel was Associate Director of Tax Services at Dean, Dorton, Allen, Ford, PLLC where she provided compliance services including tax, financial statements and accounting for business, individuals, and non-profit organizations. Her services concentrated in physicians and the healthcare industry, manufacturing, and real estate of closely-held and family-owned businesses. During the past 5 years Ms. Hinkel has served as a Banking Committee member for Equestrian Events, Inc. She has also served as a Board Member and Treasurer for Lexington and Central Kentucky Youth Salute. Ms. Hinkel has also served as a Board Member for Mark Hinkel Pedaling Forward, a 501(c)3. Ms. Hinkel also served as a Member of and Treasurer for the Board of the Flats II at Rosemary Beach HOA. Since 2019, Ms. Hinkel has served as Chair of the Board Human Resources Committee. She previously served as Chair of the Board Audit Committee from 2017 to 2019, and has served as the Board Financial Expert since 2017. During 2023, Ms. Hinkel served 10 days at Association Board meetings, 7 days in other official activities, participated in conference calls, and was paid \$19,850 in compensation.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

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

Involvement in Unincorporated Business Entities

The Association holds no equity investments in Unincorporated Business Entities (UBEs) at December 31, 2023.

Relationship with Independent Auditors

There were no changes in or material disagreements with our independent auditors on any matter of accounting principle 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:

	2023
<i>Independent Auditors</i>	
PricewaterhouseCoopers LLP	
Audit services	\$ 97,920
Total	\$ 97,920

Audit fees were for the annual audit of the consolidated financial statements.

Consolidated Financial Statements

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

Copies of the Association’s Unaudited Quarterly reports are available upon request free of charge by calling 1-859-253-3249, or writing Thomas B. Whitaker, Chief Financial Officer, Central Kentucky Agricultural Credit Association, P.O. Box 4100, Lexington, Kentucky 40544-4100, or accessing the website, www.agcreditonline.com. The Association prepares an electronic version of the Annual Report which is available on the Association’s website within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Unaudited Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank’s Annual and Unaudited 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 Unaudited 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 Central Kentucky Agricultural Credit Association (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 Central Kentucky Agricultural Credit Association. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

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



Lee M. Blandford
Chair of the Audit Committee

Members of Audit Committee

James Alvin Lyons
James C. Rankin III
Patrick Higginbotham
Joe Myers
Mary-Lynn Hinkel
Dan Grigson

March 7, 2024



Report of Independent Auditors

To the Management and Board of Directors of Central Kentucky Agricultural Credit Association

Opinion

We have audited the accompanying consolidated financial statements of Central Kentucky Agricultural Credit Association 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

<i>(dollars in thousands)</i>	December 31,		
	2023	2022	2021
Assets			
Cash	\$ 835	\$ 1,683	\$ 790
Loans	713,736	683,497	644,696
Allowance for loan losses	(2,522)	(4,417)	(4,476)
Net loans	711,214	679,080	640,220
Loans held for sale	—	—	272
Accrued interest receivable	8,003	6,848	5,573
Equity investments in other Farm Credit institutions	12,749	9,695	6,657
Premises and equipment, net	4,264	4,339	2,557
Accounts receivable	5,174	5,232	11,735
Other assets	51	71	83
Total assets	\$ 742,290	\$ 706,948	\$ 667,887
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 588,371	\$ 565,072	\$ 537,512
Accrued interest payable	1,844	1,490	1,031
Patronage refunds payable	5,169	4,680	7,907
Accounts payable	1,194	1,474	888
Advanced conditional payments	79	—	—
Other liabilities	1,804	1,736	749
Total liabilities	598,461	574,452	548,087
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	4,494	4,403	4,360
Retained earnings			
Allocated	102,850	95,960	86,217
Unallocated	36,485	32,133	29,223
Total members' equity	143,829	132,496	119,800
Total liabilities and members' equity	\$ 742,290	\$ 706,948	\$ 667,887

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

Consolidated Statements of Comprehensive Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2023	2022	2021
Interest Income			
Loans	\$ 37,870	\$ 31,412	\$ 27,251
Interest Expense	19,380	14,712	11,784
Net interest income	18,490	16,700	15,467
Provision for credit losses	770	—	—
Net interest income after provision for credit losses	17,720	16,700	15,467
Noninterest Income			
Loan fees	818	916	4,193
Patronage refunds from other Farm Credit institutions	5,216	8,365	11,663
Gains (losses) on sales of rural home loans, net	11	74	103
Gains (losses) on sales of premises and equipment, net	—	1,407	20
Gains (losses) on other transactions	(2)	—	—
Other noninterest income	2	6	9
Total noninterest income	6,045	10,768	15,988
Noninterest Expense			
Salaries and employee benefits	6,577	6,563	6,782
Occupancy and equipment	441	476	361
Insurance Fund premiums	922	982	725
Purchased services	578	540	603
Data processing	114	91	118
Other operating expenses	1,404	1,404	1,149
Total noninterest expense	10,036	10,056	9,738
Income before income taxes	13,729	17,412	21,717
Provision (benefit) for income taxes	31	(2)	22
Net income	\$ 13,698	\$ 17,414	\$ 21,695
Other comprehensive income	—	—	—
Comprehensive income	\$ 13,698	\$ 17,414	\$ 21,695

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

Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2020	\$ 4,112	\$ 74,792	\$ 27,233	\$ 106,137
Comprehensive income			21,695	21,695
Capital stock/participation certificates issued/(retired), net	248			248
Patronage distribution				
Cash			(7,737)	(7,737)
Nonqualified retained earnings		10,684	(10,684)	—
Patronage distribution adjustment		741	(1,284)	(543)
Balance at December 31, 2021	\$ 4,360	\$ 86,217	\$ 29,223	\$ 119,800
Comprehensive income			17,414	17,414
Capital stock/participation certificates issued/(retired), net	43			43
Patronage distribution				
Cash			(4,432)	(4,432)
Nonqualified retained earnings		9,295	(9,295)	—
Patronage distribution adjustment		448	(777)	(329)
Balance at December 31, 2022	\$ 4,403	\$ 95,960	\$ 32,133	\$ 132,496
Cumulative effect of change in accounting principle			2,541	2,541
Comprehensive income			13,698	13,698
Capital stock/participation certificates issued/(retired), net	91			91
Patronage distribution				
Cash			(4,992)	(4,992)
Nonqualified retained earnings		6,894	(6,894)	—
Patronage distribution adjustment		(4)	(1)	(5)
Balance at December 31, 2023	\$ 4,494	\$ 102,850	\$ 36,485	\$ 143,829

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

Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net income	\$ 13,698	\$ 17,414	\$ 21,695
Adjustments to reconcile net income to net cash			
Depreciation on premises and equipment	201	203	205
Amortization (accretion) of net deferred loan costs (fees)	(1)	—	(5)
Provision for credit losses	770	—	—
(Gains) losses on sales of premises and equipment, net	—	(1,407)	(20)
(Gains) losses on sales of rural home loans, net	(11)	(74)	(103)
(Gains) losses on other transactions	2	—	—
Changes in operating assets and liabilities:			
Origination of loans held for sale	(4,929)	(20,541)	(25,181)
Proceeds from sales of loans held for sale, net	4,940	20,887	26,073
(Increase) decrease in accrued interest receivable	(1,155)	(1,275)	252
(Increase) decrease in accounts receivable	58	6,503	(2,231)
(Increase) decrease in other assets	20	12	(45)
Increase (decrease) in accrued interest payable	354	459	42
Increase (decrease) in accounts payable	(280)	586	301
Increase (decrease) in other liabilities	4	987	(903)
Total adjustments	(27)	6,340	(1,615)
Net cash provided by (used in) operating activities	13,671	23,754	20,080
Cash flows from investing activities:			
Net (increase) decrease in loans	(30,300)	(38,860)	(47,228)
(Increase) decrease in equity investments in other Farm Credit institutions	(3,054)	(3,038)	216
Purchases of premises and equipment	(126)	(3,033)	(30)
Proceeds from sales of premises and equipment	—	2,455	20
Net cash provided by (used in) investing activities	(33,480)	(42,476)	(47,022)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	23,299	27,560	31,262
Net increase (decrease) in advanced conditional payments	79	—	—
Capital stock and participation certificates issued/(retired), net	91	43	248
Patronage refunds and dividends paid	(4,508)	(7,988)	(5,787)
Net cash provided by (used in) financing activities	18,961	19,615	25,723
Net increase (decrease) in cash	(848)	893	(1,219)
Cash, beginning of period	1,683	790	2,009
Cash, end of period	\$ 835	\$ 1,683	\$ 790
Supplemental schedule of non-cash activities:			
Estimated cash dividends or patronage distributions declared or payable	\$ 4,992	\$ 4,432	\$ 7,737
Cumulative effect of change in accounting principle	2,541	—	—
Supplemental information:			
Interest paid	\$ 19,026	\$ 14,253	\$ 11,742
Taxes (refunded) paid, net	(2)	20	11

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:** Central Kentucky Agricultural Credit Association (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Anderson, Bourbon, Boyle, Clark, Fayette, Franklin, Garrard, Harrison, Jessamine, Lincoln, Madison, Marion, Mercer, Montgomery, Scott, Washington and Woodford in the state of Kentucky.

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

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

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

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

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

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

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

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

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information systems, and marketing. The costs of these support services are included in 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	\$ 4,417	\$ (2,585)	\$ 1,832
Liabilities:			
Allowance for credit losses on unfunded commitments	\$ –	\$ 44	\$ 44
Retained earnings:			
Unallocated retained earnings	\$ 32,133	\$ 2,541	\$ 34,674

B. Cash: Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held \$493 of 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, discounts and fair value hedge accounting adjustments.

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.

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.

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans

Substantially all employees hired before January 1, 2009 may participate in the Independent Associations 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.

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

Gains and Losses from Nonfinancial Assets

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

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

Lessee

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

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

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make the payments arising from the lease. ROU assets and lease liabilities are initially recognized based on the present

value of lease payments over the lease term. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Lease expense for finance leases is recognized on a declining basis over the lease term.

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

Lessor

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

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

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

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	December 31, 2022	December 31, 2021
Real estate mortgage	\$ 517,712	\$ 497,391	\$ 453,888
Production and intermediate-term	170,861	162,989	170,704
Agribusiness:			
Processing and marketing	5,652	5,289	2,221
Farm-related business	7,038	8,496	8,626
Rural infrastructure:			
Communication	993	—	—
Power and water/waste disposal	792	—	—
Rural residential real estate	10,688	9,332	9,257
Total loans	\$ 713,736	\$ 683,497	\$ 644,696

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	\$ —	\$ 63,097	\$ —	\$ —	\$ 2,862	\$ 15,252	\$ 2,862	\$ 78,349
Production and intermediate-term	—	18,068	66	—	—	2,507	66	20,575
Agribusiness	655	2,854	177	—	—	723	832	3,577
Rural infrastructure	1,789	—	—	—	—	—	1,789	—
Total	\$ 2,444	\$ 84,019	\$ 243	\$ —	\$ 2,862	\$ 18,482	\$ 5,549	\$ 102,501

	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	\$ —	\$ 67,495	\$ —	\$ —	\$ 2,982	\$ 12,705	\$ 2,982	\$ 80,200
Production and intermediate-term	—	14,749	134	—	—	1,239	134	15,988
Agribusiness	690	3,407	—	—	—	762	690	4,169
Total	\$ 690	\$ 85,651	\$ 134	\$ —	\$ 2,982	\$ 14,706	\$ 3,806	\$ 100,357

	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	\$ —	\$ 64,289	\$ —	\$ —	\$ 2,942	\$ 11,607	\$ 2,942	\$ 75,896
Production and intermediate-term	—	13,869	157	—	—	1,368	157	15,237
Agribusiness	708	3,953	—	—	—	801	708	4,754
Total	\$ 708	\$ 82,111	\$ 157	\$ —	\$ 2,942	\$ 13,776	\$ 3,807	\$ 95,887

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	97.70%	98.41%	97.90%
OAEM	1.94	1.21	1.41
Substandard/doubtful/loss	0.36	0.38	0.69
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			
Acceptable	98.55%	98.35%	98.16%
OAEM	1.16	1.37	1.50
Substandard/doubtful/loss	0.29	0.28	0.34
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Agribusiness:			
Acceptable	62.29%	100.00%	100.00%
OAEM	37.71	-	-
Substandard/doubtful/loss	-	-	-
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Rural infrastructure			
Acceptable	100.00%	-%	-%
OAEM	-	-	-
Substandard/doubtful/loss	-	-	-
	<u>100.00%</u>	<u>-%</u>	<u>-%</u>
Rural residential real estate:			
Acceptable	97.29%	96.04%	98.44%
OAEM	2.44	3.32	0.33
Substandard/doubtful/loss	0.27	0.64	1.23
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Total loans:			
Acceptable	97.27%	98.39%	98.01%
OAEM	2.39	1.25	1.40
Substandard/doubtful/loss	0.34	0.36	0.59
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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

Accrued interest receivable on loans of \$8,003, \$6,848, and \$5,573 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	\$ 1,256	\$ 419	\$ 1,675	\$ 516,037	\$ 517,712	
Production and intermediate-term	483	215	698	170,163	170,861	
Agribusiness	-	-	-	12,690	12,690	
Rural infrastructure	-	-	-	1,785	1,785	
Rural residential real estate	-	-	-	10,688	10,688	
Total	<u>\$ 1,739</u>	<u>\$ 634</u>	<u>\$ 2,373</u>	<u>\$ 711,363</u>	<u>\$ 713,736</u>	

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	\$ 671	\$ 400	\$ 1,071	\$ 500,217	\$ 501,288	
Production and intermediate-term	456	299	755	165,035	165,790	
Agribusiness	3,050	-	3,050	10,865	13,915	
Rural residential real estate	-	-	-	9,352	9,352	
Total	<u>\$ 4,177</u>	<u>\$ 699</u>	<u>\$ 4,876</u>	<u>\$ 685,469</u>	<u>\$ 690,345</u>	

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	\$ 1,075	\$ 691	\$ 1,766	\$ 455,589	\$ 457,355	
Production and intermediate-term	625	549	1,174	171,576	172,750	
Agribusiness	—	—	—	10,888	10,888	
Rural residential real estate	241	—	241	9,035	9,276	
Total	\$ 1,941	\$ 1,240	\$ 3,181	\$ 647,088	\$ 650,269	

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

December 31, 2023	
Nonaccrual loans:	
Real estate mortgage	\$ 519
Production and intermediate-term	324
Rural residential real estate	29
Total	\$ 872
Accruing loans 90 days or more past due:	
Total	\$ 319
Total nonperforming loans	\$ 1,191
Other property owned	—
Total nonperforming assets	\$ 1,191
Nonaccrual loans as a percentage of total loans	0.12%
Nonperforming assets as a percentage of total loans and other property owned	0.17%
Nonperforming assets as a percentage of capital	0.83%

	December 31, 2022*	December 31, 2021*
Nonaccrual loans:		
Real estate mortgage	\$ 567	\$ 892
Production and intermediate-term	343	563
Rural residential real estate	99	114
Total	\$ 1,009	\$ 1,569
Accruing restructured loans:		
Real estate mortgage	\$ 987	\$ 1,213
Production and intermediate-term	492	528
Total	\$ 1,479	\$ 1,741
Accruing loans 90 days or more past due:		
Total	\$ —	\$ —
Total nonperforming loans	\$ 2,488	\$ 3,310
Other property owned	—	—
Total nonperforming assets	\$ 2,488	\$ 3,310
Nonaccrual loans as a percentage of total loans	0.15%	0.24%
Nonperforming assets as a percentage of total loans and other property owned	0.36%	0.51%
Nonperforming assets as a percentage of capital	1.88%	2.76%

* 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
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Year Ended December 31, 2023
Nonaccrual loans:				
Real estate mortgage	\$ —	\$ 519	\$ 519	\$ 140
Production and intermediate-term	106	218	324	88
Rural residential real estate	—	29	29	8
Total	\$ 106	\$ 766	\$ 872	\$ 236

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Total
Allowance for Loan Losses:						
Balance at December 31, 2022	\$ 3,668	\$ 678	\$ 43	\$ –	\$ 28	\$ 4,417
Cumulative effect of a change in accounting principle	(2,429)	(134)	(21)	–	(1)	(2,585)
Balance at January 1, 2023	\$ 1,239	\$ 544	\$ 22	\$ –	\$ 27	\$ 1,832
Charge-offs	(17)	(45)	–	–	–	(62)
Recoveries	–	1	–	–	–	1
Provision for loan losses	530	184	21	7	9	751
Balance at December 31, 2023	\$ 1,752	\$ 684	\$ 43	\$ 7	\$ 36	\$ 2,522
Allowance for Unfunded Commitments:						
Balance at December 31, 2022	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Cumulative effect of a change in accounting principle	–	43	1	–	–	44
Balance at January 1, 2023	\$ –	\$ 43	\$ 1	\$ –	\$ –	\$ 44
Provision for unfunded commitments	–	18	1	–	–	19
Balance at December 31, 2023	\$ –	\$ 61	\$ 2	\$ –	\$ –	\$ 63
Total allowance for credit losses	\$ 1,752	\$ 745	\$ 45	\$ 7	\$ 36	\$ 2,585
Allowance for Loan Losses*:						
Balance at December 31, 2021	\$ 3,672	\$ 748	\$ 30	\$ –	\$ 26	\$ 4,476
Charge-offs	–	(64)	–	–	–	(64)
Recoveries	–	5	–	–	–	5
Provision for loan losses	(4)	(11)	13	–	2	–
Balance at December 31, 2022	\$ 3,668	\$ 678	\$ 43	\$ –	\$ 28	\$ 4,417
Balance at December 31, 2020	\$ 3,432	\$ 1,101	\$ 53	\$ –	\$ 51	\$ 4,637
Charge-offs	–	(163)	–	–	–	(163)
Recoveries	–	2	–	–	–	2
Provision for loan losses	240	(192)	(23)	–	(25)	–
Balance at December 31, 2021	\$ 3,672	\$ 748	\$ 30	\$ –	\$ 26	\$ 4,476

*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 \$76,491, \$80,186, and \$73,711 at December 31, 2023, 2022, and 2021, respectively. Fees paid for such guarantee commitments totaled \$56, \$71, and \$74 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 \$0, \$0, and \$272 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:

Outstanding Recorded Investment	Year Ended December 31, 2022				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Real estate mortgage	\$ 58	\$ –	\$ –	\$ 58	
Total	\$ 58	\$ –	\$ –	\$ 58	
Post-modification:					
Real estate mortgage	\$ 58	\$ –	\$ –	\$ 58	\$ –
Total	\$ 58	\$ –	\$ –	\$ 58	\$ –

Outstanding Recorded Investment	Year Ended December 31, 2021				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Real estate mortgage	\$ –	\$ 411	\$ –	\$ 411	
Total	\$ –	\$ 411	\$ –	\$ 411	
Post-modification:					
Real estate mortgage	\$ –	\$ 411	\$ –	\$ 411	\$ –
Total	\$ –	\$ 411	\$ –	\$ 411	\$ –

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

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

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

	Total TDRs		Nonaccrual TDRs	
	December 31,		December 31,	
	2022*	2021*	2022*	2021*
Real estate mortgage	\$ 1,037	\$ 1,287	\$ 50	\$ 74
Production and intermediate-term	542	528	50	–
Total loans	\$ 1,579	\$ 1,815	\$ 100	\$ 74
Additional commitments to lend	\$ –	\$ –		

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

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as required by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled \$12,526 at December 31, 2023. In addition, the Bank had a reciprocal investment in the Association of \$843 at December 31, 2023. The Association's resulting net investment in the Bank was \$11,683 for 2023, \$8,611 for 2022 and \$5,588 for 2021. The Association owned 2.25 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled \$45.0 billion and shareholders' equity totaled \$1.7 billion. The Bank's earnings were \$265 million for 2023. In addition, the Association had investments of \$223 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	\$ 736	\$ 736	\$ 765
Buildings and improvements	4,564	4,165	3,470
Furniture and equipment	1,424	1,701	1,253
	6,724	6,602	5,488
Less: accumulated depreciation	2,460	2,263	2,931
Total	\$ 4,264	\$ 4,339	\$ 2,557

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 6.33 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 6.24 percent for Prime-based loans, and the weighted average remaining maturities were 4.3 years and 1.4 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 3.37 percent, and the weighted average remaining maturity was 15.8 years at December 31, 2023. The weighted average interest rate on all interest-bearing notes payable was 3.70 percent and the weighted average remaining maturity was 14.2 years at December 31, 2023. Gross notes payable consist of approximately -8.17 percent variable rate and 108.17 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2023. Notes Payable to AgFirst Farm Credit Bank, as reflected on the Consolidated Balance Sheets, also includes a credit which reduces the notes payable balance and corresponding interest expense. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

- A. **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 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 in an amount equal to two percent of the loan amount or \$1 thousand, whichever is less. The Association bylaws permit the Board of Directors, at their discretion, to establish an investment range between a minimum of two percent of the loan amount or \$1 thousand, whichever is less, and a maximum not to exceed ten percent of the loan amount. 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 revolvment, 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 revolvment less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average total assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement including Capital Conservation Buffer	Capital Ratios as of December 31,		
				2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	19.33%	18.92%	18.22%
Tier 1 Capital	6.0%	2.5%	8.5%	19.33%	18.92%	18.22%
Total Capital	8.0%	2.5%	10.5%	19.71%	19.61%	18.99%
Permanent Capital	7.0%	0.0%	7.0%	19.52%	19.06%	18.38%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	18.12%	17.44%	16.74%
URE and UREE Leverage	1.5%	0.0%	1.5%	17.51%	16.82%	16.31%

* 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 nonvoting Class A Preferred Stock, nonvoting Class B Common Stock, voting Class C Common Stock, nonvoting Class C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association’s business. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share.

The Board, at its sole discretion, may declare dividends on either the Class A Preferred Stock alone, or on all classes of Stock and Participation certificates during any fiscal year. However, dividends shall not be paid on common stock or participation certificates in any year with respect to which the Association has obligated itself to distribute patronage refunds.

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
B Common/Nonvoting	No	218	\$ 1
C Common/Voting	No	701,489	3,507
A Common Issued to Bank/Nonvoting	No	168,502	843
C Participation Certificates/Nonvoting	No	28,527	143
Total Capital Stock and Participation Certificates		898,736	\$ 4,494

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

Retained Earnings

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

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

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

Allocated equities shall be retired solely at the discretion of the Board, provided 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 \$3,176 of nonqualified allocated surplus and \$99,674 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 Patrons, on a patronage basis, all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patrons are defined as Members, Equity holders, and other customers, borrowers and financial institutions with which the Association shall conduct business as identified by the Board in the obligation resolution. Patronage distributions are based on the proportion of the Patron'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. Amounts not distributed are retained as unallocated members' equity.

Transfer

Classes B and C Common Stock and Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities as provided in the Association's bylaws. Class A Preferred Stock may be transferred in the manner set forth in the resolution authorizing the issuance of such Stock.

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. Class A Common Stock, Class B Common Stock, Class C Common Stock and unit of Participation Certificates
2. Class A Preferred Stock

Liquidation

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

1. Class A Preferred Stock
2. Classes A, B and C Common Stock and Participation Certificates
3. Allocated retained earnings evidenced by qualified written notices of allocation, in the order of the year of issuance and pro-rata by year of issuance
4. Allocated retained earnings evidenced by nonqualified written notices of allocation, in the year of issuance and pro-rata by year of issuance
5. All unallocated retained earnings earned after April 1, 1995, shall be distributed to all Patrons from April 1, 1995, through the date of liquidation on a patronage basis
6. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to their ownership

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 Value	
	Level 1	Level 2	Level 3					
Recurring assets								
Assets held in trust funds	\$	–	\$	–	\$	–	\$	–
Nonrecurring assets								
Impaired loans	\$	–	\$	–	\$	–	\$	–
Other property owned	\$	–	\$	–	\$	–	\$	–

	December 31, 2022							
	Fair Value Measurement Using						Total Fair Value	
	Level 1	Level 2	Level 3					
Recurring assets								
Assets held in trust funds	\$	–	\$	–	\$	–	\$	–
Nonrecurring assets								
Impaired loans	\$	–	\$	–	\$	49	\$	49
Other property owned	\$	–	\$	–	\$	–	\$	–

	December 31, 2021							
	Fair Value Measurement Using						Total Fair Value	
	Level 1	Level 2	Level 3					
Recurring assets								
Assets held in trust funds	\$	–	\$	–	\$	–	\$	–
Nonrecurring assets								
Impaired loans	\$	–	\$	–	\$	115	\$	115
Other property owned	\$	–	\$	–	\$	–	\$	–

Valuation Techniques

Assets held in trust funds

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

Impaired loans

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

Other property owned

For other property owned, the fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. If the process uses observable market-based information, the assets are classified as Level 2. If the process requires significant input based upon management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, the assets are classified as Level 3.

Note 9 — Employee Benefit Plans

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

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

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

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

The IAR Plan covers employees hired prior to January 1, 2009 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. IAR Plan expenses included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were \$653 for 2023, \$748 for 2022, and \$792 for 2021. At December 31, 2023, 2022, and 2021, the total liability balance for the IAR Plan presented in the District Combined Balance Sheets was \$7,993, \$7,335, and \$8,686, respectively. The IAR Plan was 86.62 percent, 88.52 percent, and 90.25 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 \$95 for 2023, \$82 for 2022, and \$79 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. This 401(k) plan requires the Association to match 100 percent of employee optional contributions up to a maximum employee 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 \$326, \$326, and \$334 for the years ended December 31, 2023, 2022, and 2021, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2008.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2023 amounted to \$6,845. During 2023, \$6,905 of new loans were made and repayments totaled \$6,213. In the opinion of management, none of these loans outstanding at December 31, 2023 involved more than a normal risk of collectability.

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, \$82,957 of commitments to extend credit and no commercial letters of credit were outstanding. A reserve for unfunded commitments of \$63 was included in Other Liabilities on the Consolidated Balance Sheets at December 31, 2023.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2023, standby letters of credit outstanding totaled \$13 with an expiration date of June 30, 2024. The maximum potential amount of future payments that may be required under these guarantees was \$13.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2023	2022	2021
Current:			
Federal	\$ 25	\$ (5)	\$ 22
State	6	3	—
	<u>\$ 31</u>	<u>\$ (2)</u>	<u>\$ 22</u>
Deferred:			
Federal	—	—	—
State	—	—	—
Total provision (benefit) for income taxes	<u>\$ 31</u>	<u>\$ (2)</u>	<u>\$ 22</u>

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	\$ 2,883	\$ 3,657	\$ 4,561
State tax, net	6	—	—
Patronage distributions	(1,048)	(931)	(1,625)
Tax-exempt FLCA earnings	(1,820)	(2,546)	(2,839)
Change in deferred tax asset valuation allowance	16	(212)	(11)
Deferred tax rate change	—	—	(79)
Other	(6)	30	15
Provision (benefit) for income taxes	<u>\$ 31</u>	<u>\$ (2)</u>	<u>\$ 22</u>

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

	December 31,		
	2023	2022	2021
Deferred income tax assets:			
Allowance for loan losses	\$ 165	\$ 314	\$ 314
Annual leave	75	75	93
Nonaccrual loan interest	86	93	108
Pensions and other postretirement benefits	—	—	—
Other	—	—	—
Gross deferred tax assets	<u>326</u>	<u>482</u>	<u>515</u>
Less: valuation allowance	<u>(122)</u>	<u>(284)</u>	<u>(496)</u>
Gross deferred tax assets, net of valuation allowance	<u>204</u>	<u>198</u>	<u>19</u>
Deferred income tax liabilities:			
Pensions and other postretirement benefits	—	—	—
Special Patronage	(185)	—	—
Depreciation	(19)	(12)	(19)
Other	—	(186)	—
Gross deferred tax liability	<u>(204)</u>	<u>(198)</u>	<u>(19)</u>
Net deferred tax asset (liability)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At December 31, 2023, deferred income taxes have not been provided by the Association on approximately \$13 million of its investment in the Bank. Management expects that these earnings will not be converted to cash.

The Association recorded a valuation allowance of \$122, \$284 and \$496 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	\$ 4,612	\$ 4,668	\$ 4,629	\$ 4,581	\$ 18,490
Provision for (reversal of) allowance for credit losses	505	259	11	(5)	770
Noninterest income (expense), net	(1,117)	(784)	(915)	(1,206)	(4,022)
Net income	\$ 2,990	\$ 3,625	\$ 3,703	\$ 3,380	\$ 13,698

	2022				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,992	\$ 4,131	\$ 4,264	\$ 4,313	\$ 16,700
Provision for (reversal of) allowance for loan losses	—	—	—	—	—
Noninterest income (expense), net	(988)	(1,078)	(788)	3,568	714
Net income	\$ 3,004	\$ 3,053	\$ 3,476	\$ 7,881	\$ 17,414

	2021				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,732	\$ 3,814	\$ 3,932	\$ 3,989	\$ 15,467
Provision for (reversal of) allowance for loan losses	—	—	—	—	—
Noninterest income (expense), net	928	(107)	(876)	6,283	6,228
Net income	\$ 4,660	\$ 3,707	\$ 3,056	\$ 10,272	\$ 21,695

Note 14 — Subsequent Events

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



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