

# 2022 ANNUAL REPORT



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# RIVER VALLEY AGCREDIT, ACA

## *2022 ANNUAL REPORT*

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### **Management**

Kyle Yancey.....	Chief Executive Officer
Beth Barkley.....	Chief Financial Officer
Kip Ellington.....	Chief Credit Officer
Jessica Johnson.....	Chief Human Resources Officer

### **Board of Directors**

David L. Richesin .....	Chairman
Darren Grogan.....	Vice Chairman
Tiffany Myers .....	Outside Director
Dr. Aaron Smith.....	Outside Director
Andrew Falwell.....	Director
Annette Bryant .....	Director
Don Massengale.....	Director
Aaron Wilson .....	Director
Darrin Holder .....	Director

## *Message from the President*

I am excited to report on the 2022 results for River Valley AgCredit (RVAC). For many of our staff and borrowers, 2022 was a learning experience in just how quickly interest rates can change and what a blessing a fixed rate can be. Some of our interest rates increased over 5% from the beginning of 2022 until the end and oddly enough, short-term rates did not have much of a spread under long-term rates. Despite the higher rates, our lenders turned in their third-highest year for new volume (\$127 million) and demand for farm real estate did not slow down. We were also able to give back this year in many ways. Our Coats for Kids program and Stuff the Tractor toy drive were again successful in 2022.

I am proud to announce we have moved our headquarters to a brand-new office in Paducah, Kentucky. Doing so merged two buildings of employees under one roof where we can gain efficiencies by collaborating and working side by side instead of being separated. The RVAC brand received a boost by moving to Paducah, being on a 9000 cars per day road. I have received many comments about how good our building looks and I am excited to see the growth in staff morale and volume growth that will come from being headquartered in a new market. I encourage any of you in the area to stop in for a tour of our new office. I am proud of it.

Year over year the Association's net volume grew to \$576.1 million with total assets of \$601 million. RVAC ended with our highest volume ever, growing 6.22% over 2021. This growth will position us for strong earnings in 2023. Most of our territory experienced significant drought, resulting in lower yields than in 2021. The lower yields were somewhat offset by early selling which made overall farm returns near or slightly below average. While the final returns were not what our farmers hoped for, they were not near as bad as they could have been given the drought conditions.

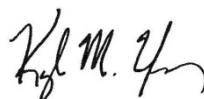
Net earnings were \$10.8 million, which was over budget by \$2.9 million. We were pleased to receive another special patronage of \$2.4 million from AgFirst in December. Our excellent 2022 net income will once again result in another generous patronage refund in 2023. Return on assets (ROA) at year-end was 1.93%, which was well above our minimum standard of 1.0% set in our general financing agreement with AgFirst. Year-end permanent capital finished at 19.13%, up slightly from 2021.

Credit quality increased to 96.19% fully acceptable, from 93.30% a year ago. Adversely classified volume increased to 3.10% of our portfolio compared to 2.51% a year ago. We remain well-positioned to handle the adversity in our portfolio and allowance for loan losses (ALL) continues to be

strong. Currently, 1.18% of total loans or \$6.9 million is set aside for any difficult environment that might develop.

As is standard for all financial institutions, RVAC was audited several times in 2022. Our audit season runs throughout the entire summer. All audits were remote again in 2022, but they were all completed as their scopes specified.

Thank you for allowing me to serve as your CEO once again in 2022. As always, my door is open to all stockholders. Please stop by or call anytime. May God bless you and your operations in 2023.



Kyle M. Yancey  
Chief Executive Officer  
River Valley AgCredit, ACA

March 9, 2023

## Report of Management

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

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

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

The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition and results of operation of the Association. The undersigned certify that we have reviewed the 2022 Annual Report of River Valley AgCredit, ACA that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



David L. Richesin  
Chairman of the Board  
of River Valley AgCredit, ACA



Tiffany Myers  
Member of Board of Directors  
Chairman of the Audit Committee  
of River Valley AgCredit, ACA



Kyle M. Yancey  
Chief Executive Officer  
of River Valley AgCredit, ACA



Beth Barkley  
Chief Financial Officer  
of River Valley AgCredit, ACA

March 9, 2023

# Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	December 31,				
	2022	2021	2020	2019	2018
<b>Balance Sheet Data</b>					
Cash	\$ 360	\$ 1,969	\$ 396	\$ 853	\$ 1,084
Loans	582,422	549,712	559,547	531,362	540,945
Allowance for loan losses	(6,901)	(6,926)	(6,993)	(6,292)	(6,734)
Net loans	575,521	542,786	552,554	525,070	534,211
Equity investments in other Farm Credit institutions	7,249	5,379	5,945	6,487	6,175
Other property owned	—	—	31	313	356
Other assets	17,935	21,017	23,030	20,189	21,537
Total assets	<b>\$ 601,065</b>	<b>\$ 571,151</b>	<b>\$ 581,956</b>	<b>\$ 552,912</b>	<b>\$ 563,363</b>
Notes payable to AgFirst Farm Credit Bank*	<b>\$ 465,253</b>	<b>\$ 443,283</b>	<b>\$ 462,996</b>	<b>\$ 437,014</b>	<b>\$ 451,508</b>
Accrued interest payable and other liabilities with maturities of less than one year	19,217	18,674	15,053	19,114	13,826
Total liabilities	<b>484,470</b>	<b>461,957</b>	<b>478,049</b>	<b>456,128</b>	<b>465,334</b>
Capital stock and participation certificates	4,881	4,831	4,726	4,559	4,478
Additional paid-in-capital	15,817	15,817	15,817	15,817	15,817
Retained earnings					
Allocated	57,633	49,474	46,708	41,930	43,889
Unallocated	38,264	39,072	36,656	34,478	33,845
Total members' equity	<b>116,595</b>	<b>109,194</b>	<b>103,907</b>	<b>96,784</b>	<b>98,029</b>
Total liabilities and members' equity	<b>\$ 601,065</b>	<b>\$ 571,151</b>	<b>\$ 581,956</b>	<b>\$ 552,912</b>	<b>\$ 563,363</b>
<b>Statement of Income Data</b>					
Net interest income	\$ 15,435	\$ 14,849	\$ 14,812	\$ 14,897	\$ 14,100
Provision for (reversal of) allowance for loan losses	(81)	(75)	670	(539)	982
Noninterest income (expense), net	(4,709)	(35)	(850)	(3,292)	(2,469)
Net income	<b>\$ 10,807</b>	<b>\$ 14,889</b>	<b>\$ 13,292</b>	<b>\$ 12,144</b>	<b>\$ 10,649</b>
<b>Key Financial Ratios</b>					
Rate of return on average:					
Total assets	1.93%	2.66%	2.38%	2.25%	2.02%
Total members' equity	9.55%	13.84%	13.32%	12.01%	11.03%
Net interest income as a percentage of					
average earning assets	2.82%	2.72%	2.72%	2.85%	2.76%
Net (chargeoffs) recoveries to average loans	0.010%	0.001%	0.006%	0.018%	(0.149)%
Total members' equity to total assets	19.40%	19.12%	17.85%	17.50%	17.40%
Debt to members' equity (:1)	4.16	4.23	4.60	4.71	4.75
Allowance for loan losses to loans	1.18%	1.26%	1.25%	1.18%	1.24%
Permanent capital ratio	19.13%	18.97%	18.15%	20.27%	18.64%
Common equity tier 1 capital ratio	18.40%	18.18%	17.40%	18.54%	16.32%
Tier 1 capital ratio	18.40%	18.18%	17.40%	18.54%	16.32%
Total regulatory capital ratio	19.82%	19.71%	18.94%	20.07%	17.86%
Tier 1 leverage ratio**	18.53%	17.42%	16.00%	16.47%	14.79%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	18.19%	17.18%	15.78%	16.18%	14.47%
<b>Net Income Distribution</b>					
Estimated patronage refunds:					
Cash	\$ 3,147	\$ 5,666	\$ 3,977	\$ 10,379	\$ 3,386
Nonqualified retained earnings	6,338	5,252	6,544	952	5,886

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

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

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

(dollars in thousands, except as noted)

## GENERAL OVERVIEW

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

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

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Western Kentucky and Southeast Tennessee. 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 Quarterly Reports are on the AgFirst website, [www.agfirst.com](http://www.agfirst.com), or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, [www.rivervalleyagcredit.com](http://www.rivervalleyagcredit.com), or by calling 1-270-554-2912, extension 2020, or writing Beth Barkley, River Valley AgCredit, ACA, 2731 Olivet Church Rd., Paducah, KY 42001. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The

Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

## FORWARD LOOKING INFORMATION

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

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

## AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

### THE LIBOR TRANSITION

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

On March 5, 2021, ICE Benchmark Administration (IBA) (the entity that is responsible for calculating LIBOR) announced its intention to cease the publication of the one-week and two-

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

The Bank and Associations have exposure to LIBOR arising from loans made to customers, investment securities purchased, and Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

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

new LIBOR volume, and adjust operating processes to implement alternative reference rates.

The Bank and Associations have implemented LIBOR transition plans and continue to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

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

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

<i>(dollars in thousands)</i>	Due in	Due in	Due after	Total	% Due after	% Due after
	2022	2023 (On or Before June 30)	June 30, 2023		June 30, 2023 to Balance Sheet Line Item	June 30, 2023 without fallback provisions
Loans	\$ —	\$ —	\$ 4,723	\$ 4,723	0.81%	—%
Total Assets	\$ —	\$ —	\$ 4,723	\$ 4,723	0.78%	—%
Direct Note	\$ —	\$ —	\$ 3,735	3,735	0.80%	—%
Total Liabilities	\$ —	\$ —	\$ 3,735	\$ 3,735	0.77%	—%

The Association is evaluating all variable rate instruments and actively monitoring LIBOR exposure of the financial instruments listed in the table above as part of its LIBOR transition Plan (Plan). The Plan includes implementing fallback language into variable-rate financial instruments which provides the ability to move these instruments to another index. A large portion of the Association's loans that have exposure to LIBOR are purchased from other financial institutions and the Bank is dependent on the other financial institutions to perform the borrower negotiations. To the extent that any loan has not been prepaid, redeemed or amended prior to June 30, 2023 to include a non-LIBOR fallback rate, pursuant to the LIBOR Act and Regulation ZZ, the LIBOR-based rate that would have been paid under such loan will be replaced by operation of law.

### CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical

because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

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

Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The



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

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

The Association uses a two-dimensional loan rating model that incorporates a 14-point risk rating model to identify and track the probability of default as well as a separate scale addressing the loss given default over a period of time. The probability of default scale provides for granularity in the ratings with 1 being the best score and 14 being a loss. Loss given default is measured by the codes of B, D, E, and F with B being well secured and F being under secured. In addition to the two-dimensional scale, management applies qualitative reserves to capture changes in loan concentrations, weather, and other events that impact the loan portfolio.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, other property owned, 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

Overall unemployment conditions in the Purchase area of Kentucky have not improved from a year ago. Unemployment is approximately 3.54% as compared to 3.53% in 2021. Unemployment in the counties served in Southeast Tennessee did improve. Unemployment is approximately 3.10% as compared to 3.27% over the same period.

The Federal Reserve continues to forecast continued economic growth, but is battling increased inflation. This indicates the Federal Reserve will likely increase interest rates even more in 2023.

Grain farmers were profitable as a whole in 2022, despite drought conditions. At current grain prices and average yields, they should meet obligations in 2023. Indications are for slightly lower input costs year over year which will impact profitability. Livestock producers were profitable in 2022. Poultry integrators improved their financial position during 2022 due to relatively high prices for their products. Avian influenza will be a concern in 2023. Poultry growers should see normalized placement of birds as integrators seek to expand production due to the increased demand for chicken. Dairy farmers were also profitable during the year, but will have less opportunities for improvement in profitability with the forecast of lower milk prices.

Land prices are expected to increase in both regions, mainly due to the increase in grain prices and overall agriculture profitability. Additionally, the demand for small rural tracts from people moving from the city will increase prices for small tracts, in both Kentucky and Tennessee.

Land rents are expected to be similar to 2022.

The housing market has slowed down due to the higher interest rate environment.

Your Association continues to be profitable and it is projected to be sustainable allowing your Cooperative to continue to pay a good patronage dividend. Losses are minimal and capital is adequate for moderate growth.

## 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 in the table below.

Loan Type	December 31,					
	2022		2021		2020	
Production and intermediate-term	\$ 182,922	31.41%	\$ 188,057	34.21%	\$ 195,255	34.89%
Real estate mortgage	314,661	54.03	298,877	54.37	296,440	52.98
Processing and marketing	25,174	4.32	4,189	0.76	7,642	1.36
Other (including Mission Related)	17,379	2.98	23,905	4.35	34,467	6.16
Rural residential real estate	21,273	3.65	20,142	3.67	15,479	2.77
Loans to Cooperatives	630	0.11	679	0.12	649	0.12
Farm-related business	13,297	2.28	13,863	2.52	9,615	1.72
Communication	6,317	1.09	-	-	-	-
Power and water/waste disposal	464	0.08	-	-	-	-
International	305	0.05	-	-	-	-
<b>Total</b>	<b>\$ 582,422</b>	<b>100.00%</b>	<b>\$ 549,712</b>	<b>100.00%</b>	<b>\$ 559,547</b>	<b>100.00%</b>

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

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

Branch	December 31,		
	2022	2021	2020
Bardwell, KY	4.21%	4.44%	5.04%
Clinton, KY	8.39	9.00	9.21
Hickman, KY	4.82	4.86	4.53
Kevil, KY	5.42	4.67	5.40
Murray, KY	11.57	11.63	13.41
Mayfield, KY	12.98	12.97	14.69
Paducah, KY*	0.00	0.00	1.18
Special Assets Unit-West	0.53	0.55	0.34
Capital Markets-Joint	8.30	6.26	7.91
Cleveland, TN	8.76	8.68	9.32
Pikeville, TN	4.58	5.11	4.67
Athens, TN	12.38	12.04	11.78
Dayton, TN	5.71	5.87	6.60
Loudon, TN	3.26	3.52	4.31
Digital Loans	0.18	0.00	0.00
Special Assets Unit-East	0.54	0.77	0.60
Farm Credit Express	0.71	1.07	1.01
Country Mortgage Dept.*	7.66	8.56	0.00
	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

\*The Country Mortgage Department was created in 2021 and includes the Paducah Branch as well as consumer loans from all local branches above.

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 poultry, corn, cattle, field crops, and grain which constitute 74 percent of the entire portfolio.

Commodity Group *	December 31,					
	2022		2021		2020	
Cattle	\$ 83,197	14%	\$ 76,963	14%	\$ 78,834	14%
Corn	103,494	18	95,260	17	97,378	17
Cotton	106	-	296	-	498	-
Dairy	11,977	2	13,067	2	15,263	3
Field Crops	66,707	12	69,479	13	66,642	12
Forestry	18,446	3	22,573	4	12,250	2
Grain	43,407	8	44,335	8	44,177	8
Nursery/Greenhouse	12,019	2	6,298	1	6,644	1
Other	33,909	6	26,462	5	33,199	6
Other Real Estate	24,273	4	21,166	4	20,928	4
Poultry	129,161	22	139,257	25	152,443	27
Processing	14,357	2	1,649	-	1,055	-
Rural Home Loan	22,639	4	20,792	4	16,054	3
Swine	7,042	1	6,842	2	7,355	2
Utilities	6,879	1	106	-	79	-
Ethanol	153	-	158	-	51	-
Tobacco	40	-	15	-	1,312	-
Tree Fruits and Nuts	4,616	1	4,994	1	5,385	1
<b>Total</b>	<b>\$ 582,422</b>	<b>100%</b>	<b>\$ 549,712</b>	<b>100%</b>	<b>\$ 559,547</b>	<b>100%</b>

\*Amounts have been revised in prior years to conform with the current period presentation.

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 corn, grain, and poultry producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Demand for chicken and beef, prices of field grains, and international trade are some of the factors affecting the price of these commodities. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified 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.

For the past few years, the Association has remained stable in long-term versus short-term loan volume. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and rapidly declines in the fall months as commodities are marketed and proceeds are applied to repay operating loans.

During 2022, the Association continued activity in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which is intended to strengthen our capital position.

Loan Participations:	December 31,		
	2022	2021	2020
Participations Purchased			
– FCS Institutions	\$ 31,298	\$ 10,814	\$ 10,037
Participations Purchased			
– Non-FCS Institutions	17,075	23,100	32,980
Participations Sold	(9,908)	(18,857)	(18,870)
Total	\$ 38,465	\$ 15,057	\$ 24,147

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, 2022.

The Association sells qualified long-term mortgage loans into the secondary market. For the year ended December 31, 2022, the Association originated loans for resale totaling \$28,927 which were sold into the secondary market as compared to \$22,783 for December 31, 2021 and \$21,393 for December 31, 2020.

The Association purchased portions of loans that are guaranteed by the United States Department of Agriculture, Farm Service Agency, and the Small Business Administration. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. At December 31, 2022, the balance of these loans, including the unamortized premium, was \$17,444, compared to \$23,905 at December 31, 2021 and \$34,467 at December 31, 2020. These loans are included as participations purchased stated above.

## INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association has not held investment securities for the past three years.

## 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. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. 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	2022	2021	2020
Acceptable & OAEM	96.90%	97.48%	96.35%
Substandard/doubt/loss	3.10%	2.52%	3.65%
Total	100.00%	100.00%	100.00%

*Nonperforming Assets*

The Association's loan portfolio is divided into performing and high-risk categories. The Credit Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

High-risk Assets	December 31,		
	2022	2021	2020
Nonaccrual loans	\$ 6,229	\$ 7,270	\$ 5,254
Restructured loans	3,546	4,011	5,274
Accruing loans 90 days past due	1,186	458	—
Total high-risk loans	10,961	11,739	10,528
Other property owned	—	—	31
Total high-risk assets	\$ 10,961	\$ 11,739	\$ 10,559
<b>Ratios</b>			
Nonaccrual loans to total loans	1.07%	1.32%	0.94%
High-risk assets to total assets	1.82%	2.06%	1.81%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased \$1,041 or 14.32% in 2022. This decrease primarily resulted from normal nonaccrual collections. Of the \$6,229 in nonaccrual volume at December 31, 2022, \$884 or 14.19%, compared to 9.68% and 16.77% at December 31, 2021 and 2020, 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 probable losses existing in and inherent to its loan portfolio.

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

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2022	2021	2020
Balance at beginning of year	\$ 6,926	\$ 6,993	\$ 6,292
Charge-offs:			
Agribusiness	—	—	—
Production and intermediate-term	(31)	(195)	(87)
Rural Residential Real Estate	—	—	—
Real estate mortgage	(1)	(3)	(18)
Total charge-offs	(32)	(198)	(105)
Recoveries:			
Agribusiness	—	—	23
Production and intermediate-term	68	156	46
Rural Residential Real Estate	—	23	3
Real Estate Mortgage	20	27	64
Total recoveries	88	206	136
Net (charge-offs) recoveries	56	8	31
Provision for (recovery of) loan losses	(81)	(75)	670
Balance at end of year	\$ 6,901	\$ 6,926	\$ 6,993
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.010%	0.001%	0.006%

Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

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

Allowance for Loan Losses by Type	December 31,		
	2022	2021	2020
Real estate mortgage	\$ 2,828	\$ 2,876	\$ 3,036
Production and intermediate-term	3,448	3,665	3,531
Agribusiness	510	245	297
Communication	12	—	—
Rural residential real estate	101	140	129
Other	2	—	—
Total Allowance	\$ 6,901	\$ 6,926	\$ 6,993

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

Allowance for Loan Losses as a Percentage of:	December 31,		
	2022	2021	2020
Total loans	1.18%	1.26%	1.25%
Nonperforming loans	105.88%	59.00%	66.23%
Nonaccrual loans	110.79%	95.27%	133.10%

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

**RESULTS OF OPERATIONS**

*Net Interest Income*

Net interest income was \$15,435, \$14,849 and \$14,812 in 2022, 2021 and 2020, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

**Change in Net Interest Income:**

	Volume*	Rate	Nonaccrual	
			Income	Total
<b>12/31/22 - 12/31/21</b>				
Interest income	\$ 75	\$ 2,415	\$ 1	\$ 2,490
Interest expense	(94)	1,998	-	1,904
Change in net interest income	\$ 169	\$ 417	\$ 1	\$ 586
<b>12/31/21 - 12/31/20</b>				
Interest income	\$ 147	\$ (1,824)	\$ (6)	\$ (1,677)
Interest expense	140	1,574	-	1,714
Change in net interest income	\$ 287	\$ (250)	\$ (6)	\$ 37

\* 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,			2022/	2021/
	2022	2021	2020	2021	2020
Loan fees	\$ 702	\$ 1,139	\$ 846	(38.37)%	34.63%
Fees for financially related services	215	271	267	(20.66)%	1.50%
Patronage refund from other Farm Credit Institutions	5,775	9,404	8,651	(38.59)%	8.70%
Gains (losses) on sales of rural home loans	370	459	300	(19.39)%	53.00%
Gains (losses) on sales of premises and equipment, net	(174)	(26)	5	569.23%	(620.00)%
Gains (losses) on other transactions	-	-	-	-%	-%
Insurance Fund Refunds	-	-	89	-%	(100.00)%
Other noninterest income	8	1	3	7.00%	(66.67)%
Total noninterest income	\$ 6,896	\$ 11,248	\$ 10,161	(38.69)%	10.70%

Loan fees increased from 2020 to 2021 due to the Paycheck Protection Program (PPP) established during the pandemic, then decreased in 2022 due to the discontinuation of that program.

Patronage refunds from other Farm Credit Institutions fluctuated due to special distributions from AgFirst Farm Credit Bank. AgFirst Board of Directors made a decision to declare a special distribution to the association based on the Bank's income and capital levels in 2022, 2021, and 2020. The amount of special distribution received was \$2,444, \$6,053, and \$5,239 respectively. In 2022, this was made in the form of allocated

surplus to be revolved at a later date while 2021 and 2020 distributions were in the form of cash.

Noninterest income decreased \$4,352 or 38.69 percent for December 31, 2022 as compared to the same period of 2021 which increased \$1,087 or 10.70 percent compared to December 31, 2020. The primary reason for the decrease in total noninterest income in 2022 is due to a decrease in loan fees and special patronage distribution from AgFirst. The primary reason for the increase in total noninterest income for the period ended December 31, 2021 was attributed to loan fees received from the PPP program and the special patronage distribution.

*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,			2022/	2021/
	2022	2021	2020	2021	2020
Salaries and employee benefits	\$ 7,651	\$ 7,560	\$ 7,546	1.20%	0.19%
Occupancy and equipment	564	529	520	6.62%	1.73%
Insurance Fund premiums	740	583	344	26.93%	69.48%
(Gains) losses on other property owned	8	14	201	(42.86)%	(93.03)%
Other operating expenses	2,656	2,551	2,339	4.12%	9.06%
Total noninterest expense	\$ 11,619	\$ 11,237	\$ 10,950	3.40%	2.62%

Salaries and employee benefits increased in 2022 and 2021 due to a normal merit increases and the accrual of a corporate incentive for all employees based on association performance.

Insurance Fund premiums increased 26.93 percent for the twelve months ended December 31, 2022, compared to the same period

of 2021. The FCSIC set premiums at 20 basis points in 2022. This premium was applied to adjusted insured debt outstanding reduced by guaranteed investments. Premiums were 16 basis points in 2021. In 2020, the premium was set at 8 basis points for the first half of the year and increased to 11 basis points in the second half of the year. In addition, for 2022, 2021 and

2020, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments.

Noninterest expense increased \$382 or 3.40 percent for December 31, 2022, as compared to the same period of 2021 which increased \$287 or 2.62 percent compared to December 31, 2020. The primary reason for the increase in total noninterest expense in 2022 is attributable to an increase in insurance fund premiums. The primary reason for the increase in total noninterest expense for the period ended December 31, 2021 was attributable to an increase in salaries and employee benefits and losses on other property owned.

#### Income Taxes

The Association recorded a benefit for income taxes of \$14 for the year ended December 31, 2022, as compared to a provision of \$46 for 2021 and \$61 for 2020. Refer to Note 2, *Summary of Significant Accounting Policies*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

#### Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended		
	12/31/22	12/31/21	12/31/20
Return on average assets	1.93%	2.66%	2.38%
Return on average members' equity	9.55%	13.84%	13.32%
Net interest income as a percentage of average earning assets	2.82%	2.72%	2.72%
Net (charge-offs) recoveries to average loans	0.010%	0.001%	0.006%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. 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 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".

Total notes payable to the Bank at December 31, 2022, were \$465,253 as compared to \$443,283 at December 31, 2021. The increase of 4.96 percent is attributable to an increase in loan volume. The average volume of outstanding notes payable to the Bank was \$433,681 and \$440,157 for the years ended December 31, 2022 and 2021, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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

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

### Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 30-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

### Relationship with the Bank

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

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

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

## CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital

plan for 2022 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2022, increased 6.78 percent to \$116,595 from the December 31, 2021, total of \$109,194. At December 31, 2021, total members' equity increased 5.09 percent from the December 31, 2020 total of \$103,907. The increase was primarily attributed to association earnings.

Total capital stock and participation certificates were \$4,881 on December 31, 2022, compared to \$4,831 on December 31, 2021 and \$4,726 on December 31, 2020.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standard for all the ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of		
				2022	2021	2020
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	2.50%	7.00%	18.40%	18.18%	17.40%
Tier 1 Capital Ratio	6.0%	2.50%	8.50%	18.40%	18.18%	17.40%
Total Capital Ratio	8.0%	2.50%	10.50%	19.82%	19.71%	18.94%
Permanent Capital Ratio	7.0%	-%	7.00%	19.13%	18.97%	18.15%
Non-risk-adjusted:						
Tier 1 Leverage Ratio	4.0%	1.00%	5.00%	18.53%	17.42%	16.00%
UREE Leverage Ratio	1.5%	-%	1.50%	18.19%	17.18%	15.78%

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.

See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

## PATRONAGE PROGRAM

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

*Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of \$9,485 in 2022, \$10,918 in 2021, and \$10,521 in 2020.

## 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. 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. As a result, 2022 goals were exceeded for Beginning, Small and Young Farmers.

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

	As of December 31, 2022	
	Number of Loans	Amount of Loans <i>(dollars in thousands)</i>
Young	692	\$92,577
Beginning	1,314	\$166,268
Small	2,585	\$206,012

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

The 2017 USDA Ag census data is the latest data available. It 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 10,609 reported farmers of which by definition 1,511 or 14.24 percent were Young, 4,931 or 46.48 percent were Beginning and 9,860 or 92.94 percent were Small. Comparatively, as of December 2022, the demographics of the Association’s agricultural portfolio contained 2,607 farmers, of which by definition 404 or 15 percent were Young, 791 or 30 percent were Beginning and 1,729 or 66 percent were Small.

ACA’s goals are to maintain our YBS percentages at the 2022 level, but in no case slip below the goals set in the Business Plan of 5% for Young, 10% for Beginning and 20% for Small farmers. The differences in the census data and the Association data are primarily in the definition differences in Young, Beginning and Small farmers. The Association assigns Young, Beginning and Small based on the age, years of experience and income of the youngest individual involved in the operation. Our numbers also include farmers that do not own farmland but rent all of their land.

The Association addresses the specific credit programs and partnerships that have been developed to help small farmers, young farmers, and farmers just starting out. It comprises programs offered by:

1. The Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers. The Association is a Preferred Lender, a status designated by the FSA.
2. KAFC Beginning Farmer Program – the state of Kentucky has special interest rates for loans up to \$250,000 for YBS in combination with ACA direct loans, with ACA as servicer of the account.
3. Association loan program to specifically target Young, Beginning and Small farmers.

The Association sponsors local events (such as 4-H, FFA, Tennessee Young Farmer’s Conference, Agricultural Days, Farmers Markets, and summer internships) or events where the Association is an exhibitor (such as industry or trade shows).

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

- \* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
- \*\* Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
- \*\*\* Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than \$250,000 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

## REGULATORY MATTERS

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

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

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



**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) but have not yet been adopted:

Summary of Guidance	Adoption and Potential Financial Statement Impact
<b><i>Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i></b>	
<ul style="list-style-type: none"> <li>• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets.</li> <li>• Changes the present incurred loss impairment guidance for loans to an expected loss model.</li> <li>• Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>• Modifies and enhances financial instruments disclosures.</li> <li>• Eliminates the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>• Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>• The Association has established a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System.</li> <li>• The Association has completed development of PD/LGD model and independently validated the model for conceptual soundness. The implementation of processes, internal controls and policy updates are complete.</li> <li>• The Association macroeconomic forecast includes a weighted selection of the Moody’s baseline, upside 10th percentile and downside 90th percentile scenarios.</li> <li>• See discussion of impact within Note 2 – <i>Summary of Significant Accounting Policies</i>.</li> <li>• The guidance has been adopted on January 1, 2023.</li> </ul>

# *Disclosure Required by Farm Credit Administration Regulations*

## Description of Business

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

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

## Unincorporated Business Entity (UBE)

River Valley AgCredit, ACA holds an equity investment at December 31, 2022 in the following Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC). The LLCs were organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of Operating Agreements of the respective LLCs.

Entity Name	Entity Type	Entity Purpose
A1 Sequatchie Point, LLC	LLC	Manage Acquired Property

## Description of Property

The following table sets forth certain information regarding the properties of the reporting entity which are located in Kentucky and Tennessee:

Location	Description	Form of Ownership
328 E. Broadway Mayfield, KY	Administrative	Sold May 2022
408 E. Broadway Mayfield, KY	Administrative	Sold May 2022
2731 Olivet Church Rd Paducah, KY 42001	Administrative	Owned
196 US Hwy 51 North Bardwell, KY	Branch	Leased*
102 N Washington St. Clinton, KY	Branch	Owned
1514 Union City Hwy. Hickman, KY	Branch	Owned
12350 U.S. Highway 60 West Kevil, KY	Branch	Owned
1401 N. 12th St. Murray, KY	Branch	Owned
545 Dick Castleman Bypass Mayfield, KY	Branch	Owned
2190 New Holt Road, Suite A Paducah, KY	Branch	Moved to Admin October 2022
2620 APD 40 Cleveland, TN	Branch	Owned
600 US 127 Bypass Pikeville, TN	Branch	Owned
1117 S Congress Parkway Athens, TN	Branch	Owned
230 Main Street Dayton, TN	Branch	Owned
2052 Hwy 72 Loudon, TN	Branch	Owned

\*Five year lease expiring 3/31/24. Monthly payment \$1,749.60.

## 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 and their business experience for the past five years:

Name and Title	Term of Office	Prior Experience
Kyle Yancey, Chief Executive Officer	1/1/2016 - present	
Kip Ellington, Chief Credit Officer	3/16/2020 – present	Regional Lending Manager 2015-3/15/2020
Beth Barkley, Chief Financial Officer	1/1/2014 – present	
Jessica Johnson, Chief Human Resources Officer	6/1/2019-present	Human Resources Manager- 1/1/2015-5/31/2019

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2022, 2021 and 2020, is as follows:

Name of Individual or Number in Group	Year	Annual					Total
		Salary	Bonus	Perq/ Other*	Pension Change		
Kyle Yancey	2022	\$ 366,758	\$ –	\$ 2,476	\$ (312,026)	\$ 57,208	
Kyle Yancey	2021	\$ 350,282	\$ –	\$ 2,726	\$ 35,568	\$ 388,576	
Kyle Yancey	2020	\$ 336,813	\$ 64,245	\$ 3,399	\$ 212,136	\$ 616,593	
5	2022	\$ 757,366	\$ 23,207	\$ 15,113	\$ (566,780)	\$ 228,906	
6	2021	\$ 824,526	\$ 28,340	\$ 15,113	\$ 502,931	\$ 1,370,910	
6	2020	\$ 794,162	\$ 133,393	\$ 14,921	\$ 858,894	\$ 1,801,370	

\*Amounts in the above table classified as Perquisites include group life insurance and automobile compensation.

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

The Association participates in multi-association, District and multi-district sponsored benefit plans. Change in pension value is considered a part of compensation. The following Pension Benefits table reflects number of years credited service, actuarial present value of accumulated benefits, along with any payments made during 2022 for the CEO and senior officers and other highly compensated employees as a group.

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2022
Kyle Yancey	2022	IARP	17	\$550,450	\$-
5 Officers, excluding the CEO	2022	IARP	23	\$3,047,008	\$-

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

In addition to a base salary, senior officers earn additional compensation under an incentive plan which is tied to the overall business performance and the individual’s performance appraisal rating. The Association incentive plan is designed to motivate employees to exceed the business plan goals during the fiscal year. These goals typically include return on assets, credit quality, credit administration, loan volume, nonaccrual

loan volume, permanent capital and other key ratios. Those covered by the plan include all employees. Also all employees except Administrative staff participate in insurance and lease incentive plans designed to motivate employees to increase insurance sales and leasing fee income to benefit the member as well as the Association. Additional incentive plans available to all employees include member referral incentives designed to encourage employees to promote new business through personal contacts. Bonuses are shown in the year earned, which may be different than the year of payment.

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. Disclosure of information on the total compensation paid during 2022 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

**Directors**

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

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2022
David Richesin, <i>Chairman</i>	2008*	2023	\$ 18,830
Randall Heath, <i>Vice Chairman 2022</i>	2006	2022	16,810
Darren Grogan <i>Vice Chairman 2023</i>	2008	2023	21,040
Annette Bryant	2020	2025	21,425
Buddy D. Ray, <i>Outside Dir</i>	2003	2022	16,810
Aaron Smith, <i>Outside Dir</i>	2022	2025	10,000
Aaron Wilson	2009	2025	18,310
Tiffany Myers, <i>Outside Dir</i>	2015	2024	16,330
Andrew Falwell	2018	2024	22,060
Don Massengale	2018	2024	22,695
Darrin Holder	2022	2025	3,000
			<u>\$ 187,310</u>

\*Original year of election or appointment to the Board of Directors of Chattanooga, ACA.

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

**Mr. David Richesin, Chairman**, is a row crop operator headquartered in Loudon County, TN. Currently, he serves on the AgFirst Farm Credit Bank Board of Directors and is a director on the AgFirst Farm Credit Council. He also serves on the Tennessee Farm Bureau Board of Directors as a State Director-at-Large and as a board member of the Loudon County Farm Bureau Board of Directors. Mr. Richesin received his BS degree in Agricultural Business from the University of Tennessee.

**Mr. Randall Heath, Vice Chairman 2022**, retired from the board in November of 2022. He is retired from a row crop farming operation in Graves County, KY. Mr. Heath serves on the board of Graves County Farm Bureau.

**Mr. Darren Grogan, Vice Chairman 2023**, operates a row crop operation headquartered in Carlisle County, KY. Mr. Grogan is a graduate of Ashford University with a BS degree in Economics with specialization in Finance and a minor in Accounting.

**Mrs. Annette Bryant** has been an agriculture teacher and FFA advisor for fourteen years. She also owns and operates a cow/calf operation in McMinn County with her husband. They also raise market hogs and sheep and recently opened Harmony Hill Market, where they sell retail cuts of their beef, pork and lamb. She attended Fairview High School and the University of Tennessee at Martin, where she received her BS in Animal Science and Kansas State University where she received her MS in Ruminant Nutrition.

**Mrs. Tiffany Myers, Outside Director**, served as the Audit Committee chair in 2022. She is a licensed Certified Public Accountant for the state of Kentucky and is employed as the Chief Financial Officer for WK&T Telecommunications of Mayfield, KY. Mrs. Myers received her degree in accounting from Murray State University and a Master of Information Systems from the University of Phoenix. Mrs. Myers is a member of the Kentucky Society of CPA's and the American Institute of Certified Public Accountant Organization.

**Dr. Buddy D. Ray, DVM, Outside Director**, retired from the board in November of 2022. He is a veterinarian at the Bovine Consulting Associates, LLC. He also serves on the Merck Large Animal Advisory Board and Elanco Food Animal Advisory Board. Dr. Ray received his BS degree in Agriculture from Murray State University and received his DVM from Auburn University.

**Mr. Aaron Wilson** owns/operates a row crop and cattle operation consisting of 2,800 acres of soybeans/corn and 160 head of beef cows in Ballard County, KY. He serves as Chairman of the Ballard County Soil Conservation Service. He also serves as an elder of Bethel Cumberland Presbyterian Church. Mr. Wilson received his BA degree in Biology from Transylvania University.

**Mr. Andrew Falwell** co-owns/operates a row crop and dark tobacco operation in Murray, KY, consisting of corn, soybeans, wheat, dark tobacco, and fruits & vegetables. He serves as a deacon at Glendale Road Church of Christ. Mr. Falwell received his BS degree from Murray State University and his Master's degree from Purdue University.

**Mr. Don Massengale** is the owner/operator of a 50 head cow/calf operation with freezer beef sales and replacement heifers in Rhea County, TN. He also raises corn for silage and grain, wheat grain and hay, and grass hay. Don and his wife, Karen, own and operate a 2 house poultry breeder operation for Aviagen. Mr. Massengale is a Volunteer Fireman for the Rhea County Volunteer Fire Department. He serves as President on the Rhea County Fair Board and Vice President for the Rhea County Cattlemen's Association. Mr. Massengale also serves as a board member for Rhea County Farm Bureau.

**Dr. Aaron Smith, Outside Director**, was appointed by the board and began his term in December of 2022. He is a tenured, Associate Professor and Extension Economist in the Department of Agricultural and Resource Economics at the University of Tennessee, Knoxville. His applied research and Extension program focuses on Agricultural Policy and commodity marketing. He has also worked in the commercial banking and credit union system, focusing on agricultural and oil/gas lending. Aaron lives in Knox County Tennessee with his wife Tracy and three children Mason, Maija, and Morgan.

**Mr. Darrin Holder** was elected to the board in November of 2022. He is an agronomist/crop protection product manager for WinField United, a Land O'Lakes Company. He is also the owner of a small row crop farm that is rented to a local farmer. Mr. Holder received his BS degree in Agriculture Science, as well as his Master's Degree in Agriculture with an emphasis on Agronomy from Murray State University.

Subject to approval by the board, the Association may allow directors honoraria of \$750 for attendance at meetings, committee meetings, or special assignments. The Chairman of

the Board and all other directors are paid a quarterly retainer fee of \$1,000 and \$500 respectively. Total compensation paid to directors as a group was \$187,310.

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

Name of Director	Days Served		Committee Assignments	Comp. Paid for other Activities*
	Regular Board Meetings	Other Official Activities*		
David Richesin, <i>Chairman</i>	6	10	Audit/Credit/ Governance/ Compensation	\$ 10,330
Randall Heath, <i>Vice Chairman 2022</i>	5	13	Audit/Credit/ Governance	11,060
Tiffany Myers, <i>Outside Dir</i>	6	10	Audit/Credit/ Governance	9,830
Darren Grogan <i>Vice Chairman 2023</i>	6	17	Governance/ Audit/Credit	14,540
Annette Bryant	6	17	Credit/Audit	14,925
Buddy D Ray, <i>Outside Dir</i>	5	13	Credit/Audit/ Compensation	11,060
Aaron Smith, <i>Outside Dir</i>	3	8		7,250
Aaron Wilson	6	13	Audit/Credit	11,810
Andrew Falwell	6	18	Credit/Audit/ Compensation/ Governance	15,560
Don Massengale	6	18	Credit/Audit/ Compensation	16,195
Darrin Holder	1	2		2,250
				<u>\$ 124,810</u>

\*Includes board committee meetings and other board activities other than regular board meetings and quarterly retainer fees.

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$15,417 for 2022, \$1,090 for 2021 and \$10,615 for 2020. The decrease in 2021 was due to a reduction in travel due to virtual meetings and the use of company vehicles when travel was needed.

#### 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. FCA regulation requires the disclosure of the purchase or retirement of Association preferred stock held by an Association officer or director. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

#### Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal

proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

#### Relationship with Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP was the Association's principal auditor in 2022. There were no changes in or material disagreements with our independent registered public accounting firm on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees paid by the Association for services rendered by its independent registered public accounting firm for the year ended December 31, 2022 were as follows:

	2022
<i>Independent Registered Public Accounting Firm</i>	
PricewaterhouseCoopers LLP	
Audit services	89,040
Total	<u>\$ 89,040</u>

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

#### Consolidated Financial Statements

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

Copies of the Association's quarterly reports are available upon request free of charge by calling 1-270-554-2912 or writing Beth Barkley, River Valley AgCredit, ACA, 2731 Olivet Church Rd., Paducah, KY 42001 or accessing the website, [www.rivervalleyagcredit.com](http://www.rivervalleyagcredit.com). The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the 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 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](http://www.agfirst.com). The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

## *Report of the Audit Committee*

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

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

PriceWaterhouseCoopers LLP (PwC), the Association's auditor for 2022, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 (*The Auditor's Communication With Those Charged With Governance*). The Committee discussed with PwC its independence from River Valley AgCredit, ACA.

The Committee has also reviewed the non-audit services provided by PwC, if any, and concluded that these services were not incompatible with maintaining PwC's independence.

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



Tiffany Myers  
Chairperson of the Audit Committee

### **Members of Audit Committee**

Tiffany Myers  
David Richesin  
Darrin Holder  
Annette Bryant  
Andrew Falwell  
Darren Grogan  
Don Massengale  
Dr. Aaron Smith  
Aaron Wilson

March 9, 2023



## **Report of Independent Auditors**

To the Board of Directors and Management of River Valley AgCredit, ACA

### ***Opinion***

We have audited the accompanying consolidated financial statements of River Valley AgCredit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 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, 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.

### ***Other Matter***

The consolidated financial statements of the Association as of December 31, 2020 and for the year then ended were audited by other auditors whose report, dated March 11, 2021, expressed an unmodified opinion on those statements.

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of





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

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

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

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

### ***Other Information***

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

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

*PricewaterhouseCoopers LLP*

Atlanta, Georgia  
March 9, 2023

# Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31,		
	2022	2021	2020
<b>Assets</b>			
Cash	\$ 360	\$ 1,969	\$ 396
Loans	582,422	549,712	559,547
Allowance for loan losses	(6,901)	(6,926)	(6,993)
Net loans	575,521	542,786	552,554
Loans held for sale	—	—	1,329
Accrued interest receivable	6,829	5,280	6,892
Equity investments in other Farm Credit institutions	7,249	5,379	5,945
Premises and equipment, net	7,667	6,016	5,758
Other property owned	—	—	31
Accounts receivable	3,278	9,481	8,772
Other assets	161	240	279
Total assets	\$ 601,065	\$ 571,151	\$ 581,956
<b>Liabilities</b>			
Notes payable to AgFirst Farm Credit Bank	\$ 465,253	\$ 443,283	\$ 462,996
Accrued interest payable	1,277	812	860
Patronage refunds payable	3,950	6,391	4,810
Accounts payable	1,505	726	653
Advanced conditional payments	3,962	4,068	4,375
Other liabilities	8,523	6,677	4,355
Total liabilities	484,470	461,957	478,049
Commitments and contingencies (Note 11)			
<b>Members' Equity</b>			
Capital stock and participation certificates	4,881	4,831	4,726
Additional paid-in-capital	15,817	15,817	15,817
Retained earnings			
Allocated	57,633	49,474	46,708
Unallocated	38,264	39,072	36,656
Total members' equity	116,595	109,194	103,907
Total liabilities and members' equity	\$ 601,065	\$ 571,151	\$ 581,956

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,		
	2022	2021	2020
<b>Interest Income</b>			
Loans	\$ 26,931	\$ 24,433	\$ 26,112
Other	7	15	13
Total interest income	<b>26,938</b>	24,448	26,125
<b>Interest Expense</b>			
Notes payable to AgFirst Farm Credit Bank	11,386	9,518	11,247
Other	117	81	66
Total interest expense	<b>11,503</b>	9,599	11,313
Net interest income	<b>15,435</b>	14,849	14,812
Provision for (reversal of) allowance for loan losses	(81)	(75)	670
Net interest income after provision for (reversal of) allowance for loan losses	<b>15,516</b>	14,924	14,142
<b>Noninterest Income</b>			
Loan fees	702	1,139	846
Fees for financially related services	215	271	267
Patronage refunds from other Farm Credit institutions	5,775	9,404	8,651
Gains (losses) on sales of rural home loans, net	370	459	300
Gains (losses) on sales of premises and equipment, net	(174)	(26)	5
Insurance Fund refunds	—	—	89
Other noninterest income	8	1	3
Total noninterest income	<b>6,896</b>	11,248	10,161
<b>Noninterest Expense</b>			
Salaries and employee benefits	7,651	7,560	7,546
Occupancy and equipment	564	529	520
Insurance Fund premiums	740	583	344
Purchased services	494	679	599
Data processing	201	225	184
Other operating expenses	1,961	1,647	1,556
(Gains) losses on other property owned, net	8	14	201
Total noninterest expense	<b>11,619</b>	11,237	10,950
Income before income taxes	<b>10,793</b>	14,935	13,353
Provision (benefit) for income taxes	(14)	46	61
<b>Net income</b>	<b>\$ 10,807</b>	\$ 14,889	\$ 13,292
Other comprehensive income	—	—	—
<b>Comprehensive income</b>	<b>\$ 10,807</b>	\$ 14,889	\$ 13,292

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	Additional Paid-in-Capital	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2019	\$ 4,559	\$ 15,817	\$ 41,930	\$ 34,478	\$ 96,784
Comprehensive income				13,292	13,292
Capital stock/participation certificates issued/(retired), net	167				167
Patronage distribution					
Cash				(3,977)	(3,977)
Nonqualified retained earnings			6,544	(6,544)	—
Retained earnings retired			(4,349)		(4,349)
Patronage distribution adjustment			2,583	(593)	1,990
<b>Balance at December 31, 2020</b>	<b>\$ 4,726</b>	<b>\$ 15,817</b>	<b>\$ 46,708</b>	<b>\$ 36,656</b>	<b>\$ 103,907</b>
Comprehensive income				14,889	14,889
Capital stock/participation certificates issued/(retired), net	105				105
Patronage distribution					
Cash				(5,666)	(5,666)
Nonqualified retained earnings			5,252	(5,252)	—
Patronage distribution adjustment			(2,486)	(1,555)	(4,041)
<b>Balance at December 31, 2021</b>	<b>\$ 4,831</b>	<b>\$ 15,817</b>	<b>\$ 49,474</b>	<b>\$ 39,072</b>	<b>\$ 109,194</b>
<b>Comprehensive income</b>				<b>10,807</b>	<b>10,807</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>50</b>				<b>50</b>
<b>Patronage distribution</b>					
<b>Cash</b>				<b>(3,147)</b>	<b>(3,147)</b>
<b>Nonqualified retained earnings</b>			<b>6,338</b>	<b>(6,338)</b>	<b>—</b>
<b>Patronage distribution adjustment</b>			<b>1,821</b>	<b>(2,130)</b>	<b>(309)</b>
<b>Balance at December 31, 2022</b>	<b>\$ 4,881</b>	<b>\$ 15,817</b>	<b>\$ 57,633</b>	<b>\$ 38,264</b>	<b>\$ 116,595</b>

*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,		
	2022	2021	2020
<b>Cash flows from operating activities:</b>			
Net income	\$ 10,807	\$ 14,889	\$ 13,292
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	390	377	257
Amortization (accretion) of net deferred loan costs (fees)	479	667	874
Amortization (accretion) of yield mark resulting from merger	(6)	(6)	(43)
Provision for (reversal of) allowance for loan losses	(81)	(75)	670
(Gains) losses on other property owned	—	7	145
(Gains) losses on sales of premises and equipment, net	174	26	(5)
(Gains) losses on sales of rural home loans, net	(370)	(459)	(300)
Changes in operating assets and liabilities:			
Origination of loans held for sale	(28,927)	(22,783)	(21,393)
Proceeds from sales of loans held for sale, net	29,297	24,571	21,044
(Increase) decrease in accrued interest receivable	(1,549)	1,612	800
(Increase) decrease in accounts receivable	6,203	(709)	(2,874)
(Increase) decrease in other assets	79	39	96
Increase (decrease) in accrued interest payable	465	(48)	(285)
Increase (decrease) in accounts payable	779	73	111
Increase (decrease) in other liabilities	1,846	2,322	(948)
Total adjustments	8,779	5,614	(1,851)
Net cash provided by (used in) operating activities	19,586	20,503	11,441
<b>Cash flows from investing activities:</b>			
Net (increase) decrease in loans	(33,140)	9,165	(29,191)
(Increase) decrease in equity investments in other Farm Credit institutions	(1,870)	566	542
Purchases of premises and equipment	(2,215)	(735)	(472)
Proceeds from sales of premises and equipment	—	74	6
Proceeds from sales of other property owned	—	24	305
Net cash provided by (used in) investing activities	(37,225)	9,094	(28,810)
<b>Cash flows from financing activities:</b>			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	21,983	(19,696)	26,020
Net increase (decrease) in advanced conditional payments	(106)	(307)	2,167
Capital stock and participation certificates issued/(retired), net	50	105	167
Patronage refunds and dividends paid	(5,897)	(8,126)	(7,093)
Retained earnings retired	—	—	(4,349)
Net cash provided by (used in) financing activities	16,030	(28,024)	16,912
Net increase (decrease) in cash	(1,609)	1,573	(457)
Cash, beginning of period	1,969	396	853
Cash, end of period	\$ 360	\$ 1,969	\$ 396
<b>Supplemental schedule of non-cash activities:</b>			
Financed sales of other property owned	\$ —	\$ —	\$ 50
Receipt of property in settlement of loans	—	—	218
Estimated cash dividends or patronage distributions declared or payable	3,147	5,666	3,977
<b>Supplemental information:</b>			
Interest paid	\$ 11,051	\$ 9,664	\$ 11,636
Taxes (refunded) paid, net	29	46	86

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:** River Valley AgCredit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Ballard, Calloway, Carlisle, Fulton, Graves, Hickman, Marshall and McCracken in the state of Kentucky and in the counties of Hamilton, Marion, Bradley, Polk, Bledsoe, Sequatchie, Monroe, Meigs, McMinn, Rhea, Loudon and Roane in the state of Tennessee.

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

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

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

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

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance

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

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

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

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

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

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

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

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

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

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

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

- A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held \$1 in cash in excess of insured amounts.
- B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

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

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

or otherwise discharged in full. A formal restructuring may also cure a past due status.

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

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

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

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

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

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

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a

loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

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

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

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

Acquired loans are recorded at estimated fair value on their purchase date with no carryover of any related allowance for loan losses. Acquired loans were segregated between those considered to be credit impaired and those deemed performing. To make this determination, management considered such factors as past due status, nonaccrual status and credit risk ratings. The fair value of acquired performing loans was determined by discounting expected cash flows, both principal and interest, for each loan at prevailing market interest rates. The difference between the fair value and principal balances due at acquisition date, the fair value discount, is accreted into income over the estimated life of each loan.

For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Association would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or whether such loans would be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan's or pool's scheduled principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. It then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent significant increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all purchased impaired loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

In addition to the probability of default methodology, management applies an additional qualitative reserve that captures changes in loan concentrations, weather, local economy, and other events that impact the loan portfolio.

- C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value.
- D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess



of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) on Other Property Owned, Net in the Consolidated Statements of Comprehensive Income.

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

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

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

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

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

#### ***Investments in Debt Securities***

The Association may hold certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded in the Consolidated Balance Sheets as securities on the trade date.

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and carried at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included as a component of Other Comprehensive Income (OCI). Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security using the interest method. The amortization of premiums on certain purchased callable debt securities that have explicit, noncontingent call features and that are callable at fixed prices on preset dates are amortized to the earliest call date.

#### ***Other Equity Investments***

Any equity securities with a readily determinable fair value are carried at fair value with unrealized gains and losses included in earnings. Equity securities without a readily determinable fair value are carried at cost less any impairment.

#### ***Impairment***

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected in OCI, unless the investment is deemed to be other-than-temporarily impaired (OTTI). Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a *credit loss*). If the Association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in OCI.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Association will record additional OTTI and adjust the yield of the security prospectively. The amount of total OTTI for an AFS security that previously was impaired is determined as the difference between its carrying amount prior to the determination of OTTI and its fair value.

#### ***Investment Income***

Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

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

- G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as a liability in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.
- H. **Employee Benefit Plans:** The Association participates in District and multi-district sponsored benefit plans. These plans may include defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

**Defined Contribution Plans**

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

Additional information may be found in Note 9.

**Multiemployer Defined Benefit Plans**

Substantially all employees hired before January 1, 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.

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

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

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the

Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

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

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

- J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis. Patronage refunds due from the Bank for the years ended December 31, 2022, 2021 and 2020 of \$3,282, \$9,365, and \$8,595 respectively, are reflected in Accounts Receivable on the Consolidated Balance Sheets.
- K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

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

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

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

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

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

Additional information may be found in Note 8.

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

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

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

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

#### **Financial Instruments**

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

#### **Contracts with Customers**

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

#### **Gains and Losses from Nonfinancial Assets**

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

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

#### **Lessee**

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

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

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

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

#### **Lessor**

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

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

governmental authority are excluded from consideration as variable payments.

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

- O. **Accounting Standards Updates (ASUs):** In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance and amendments issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date through the life of the financial instrument. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU became effective on January 1, 2023. The Association adopted Topic 326 on January 1, 2023. The impact of adoption resulted in a decrease in allowance for credit losses of \$4.6 million.

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

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

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

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

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

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

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

economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31,		
	2022	2021	2020
Real estate mortgage	\$ 314,661	\$ 298,877	\$ 296,440
Production and intermediate-term	182,922	188,057	195,255
Loans to cooperatives	630	679	649
Processing and marketing	25,174	4,189	7,642
Farm-related business	13,297	13,863	9,615
Communication	6,317	-	-
Power and water/waste disposal	464	-	-
Rural residential real estate	21,273	20,142	15,479
International	305	-	-
Other (including Mission Related)	17,379	23,905	34,467
Total loans	<u>\$ 582,422</u>	<u>\$ 549,712</u>	<u>\$ 559,547</u>

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

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

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

	December 31, 2022							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 1,890	\$ 4,190	\$ -	\$ -	\$ -	\$ 3,750	\$ 1,890
Production and intermediate-term	4,410	(2)	220	-	-	1,970	4,630	1,968
Loans to cooperatives	631	-	-	-	-	-	631	-
Processing and marketing	15,044	-	-	-	-	-	15,044	-
Farm-related business	1,985	-	-	-	-	-	1,985	-
Communication	6,345	-	-	-	-	-	6,345	-
Power and water/waste disposal	468	-	-	-	-	-	468	-
International	305	-	-	-	-	-	305	-
Other (including Mission Related)	-	-	-	-	17,075	-	17,075	-
Total	<u>\$ 31,078</u>	<u>\$ 4,188</u>	<u>\$ 220</u>	<u>\$ -</u>	<u>\$ 17,075</u>	<u>\$ 5,720</u>	<u>\$ 48,373</u>	<u>\$ 9,908</u>

	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	\$ 2,614	\$ 4,486	\$ -	\$ -	\$ -	\$ 3,409	\$ 2,614
Production and intermediate-term	4,006	(2)	284	-	-	2,522	4,290	2,520
Loans to cooperatives	680	-	-	-	-	-	680	-
Processing and marketing	3,230	8,442	-	-	-	-	3,230	8,442
Other (including Mission Related)	-	-	-	-	23,100	-	23,100	-
Total	<u>\$ 10,530</u>	<u>\$ 12,926</u>	<u>\$ 284</u>	<u>\$ -</u>	<u>\$ 23,100</u>	<u>\$ 5,931</u>	<u>\$ 33,914</u>	<u>\$ 18,857</u>

December 31, 2020

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 2,626	\$ 5,134	\$ -	\$ -	\$ -	\$ 3,568	\$ 2,626	\$ 8,702
Production and intermediate-term	3,106	3,189	214	-	-	2,781	3,320	5,970
Loans to cooperatives	651	-	-	-	-	-	651	-
Processing and marketing	3,429	4,000	-	-	-	-	3,429	4,000
Farm-related business	11	198	-	-	-	-	11	198
Other (including Mission Related)	-	-	-	-	32,980	-	32,980	-
Total	\$ 9,823	\$ 12,521	\$ 214	\$ -	\$ 32,980	\$ 6,349	\$ 43,017	\$ 18,870

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

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

	December 31,				December 31,		
	2022	2021	2020		2022	2021	2020
<b>Real estate mortgage:</b>				<b>Communication:</b>			
Acceptable	97.26%	93.38%	94.17%	Acceptable	100.00%	-%	-%
OAEM	0.71	4.94	1.93	OAEM	-	-	-
Substandard/doubtful/loss	2.03	1.68	3.90	Substandard/doubtful/loss	-	-	-
	100.00%	100.00%	100.00%		100.00%	-%	-%
<b>Production and intermediate-term:</b>				<b>Power and water/waste disposal:</b>			
Acceptable	93.98%	92.49%	90.71%	Acceptable	100.00%	-%	-%
OAEM	0.96	3.76	4.97	OAEM	-	-	-
Substandard/doubtful/loss	5.06	3.75	4.32	Substandard/doubtful/loss	-	-	-
	100.00%	100.00%	100.00%		100.00%	-%	-%
<b>Loans to cooperatives:</b>				<b>Rural residential real estate:</b>			
Acceptable	100.00%	100.00%	100.00%	Acceptable	98.28%	98.54%	98.84%
OAEM	-	-	-	OAEM	0.70	1.04	0.07
Substandard/doubtful/loss	-	-	-	Substandard/doubtful/loss	1.02	0.42	1.09
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
<b>Processing and marketing:</b>				<b>International:</b>			
Acceptable	100.00%	90.21%	100.00%	Acceptable	100.00%	-%	-%
OAEM	-	-	-	OAEM	-	-	-
Substandard/doubtful/loss	-	9.79	-	Substandard/doubtful/loss	-	-	-
	100.00%	100.00%	100.00%		100.00%	-%	-%
<b>Farm-related business:</b>				<b>Other (including Mission Related):</b>			
Acceptable	83.84%	83.70%	72.84%	Acceptable	100.00%	100.00%	100.00%
OAEM	-	7.12	24.76	OAEM	-	-	-
Substandard/doubtful/loss	16.16	9.18	2.40	Substandard/doubtful/loss	-	-	-
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
				<b>Total loans:</b>			
				Acceptable	96.19%	93.29%	93.16%
				OAEM	0.71	4.19	3.19
				Substandard/doubtful/loss	3.10	2.52	3.65
					100.00%	100.00%	100.00%

The following tables provide an aging analysis of past due loans with related accrued interest, premiums, and discounts as of periods ended:

	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	\$ 791	\$ 1,074	\$ 1,865	\$ 316,064	\$ 317,929
Production and intermediate-term	311	3,091	3,402	182,532	185,934
Loans to cooperatives	-	-	-	630	630
Processing and marketing	-	-	-	25,247	25,247
Farm-related business	-	982	982	12,420	13,402
Communication	-	-	-	6,328	6,328
Power and water/waste disposal	-	-	-	464	464
Rural residential real estate	169	185	354	20,992	21,346
International	-	-	-	311	311
Other (including Mission Related)	898	1,186	2,084	15,576	17,660
Total	\$ 2,169	\$ 6,518	\$ 8,687	\$ 580,564	\$ 589,251

	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	\$ 1,034	\$ 1,982	\$ 3,016	\$ 298,415	\$ 301,431	
Production and intermediate-term Loans to cooperatives	737	2,999	3,736	186,566	190,302	
Processing and marketing	–	–	–	679	679	
Farm-related business	–	982	982	4,193	4,193	
Rural residential real estate	–	–	–	13,076	14,058	
Other (including Mission Related)	89	–	89	20,112	20,201	
	1,144	458	1,602	22,526	24,128	
Total	\$ 3,004	\$ 6,421	\$ 9,425	\$ 545,567	\$ 554,992	

	December 31, 2020					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
Real estate mortgage	\$ 506	\$ 2,763	\$ 3,269	\$ 296,557	\$ 299,826	
Production and intermediate-term Loans to cooperatives	274	1,470	1,744	196,605	198,349	
Processing and marketing	–	–	–	649	649	
Farm-related business	–	–	–	7,660	7,660	
Rural residential real estate	233	–	233	9,472	9,705	
Other (including Mission Related)	–	52	52	15,479	15,531	
	2,104	–	2,104	32,615	34,719	
Total	\$ 3,117	\$ 4,285	\$ 7,402	\$ 559,037	\$ 566,439	

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

	December 31,		
	2022	2021	2020
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 1,599	\$ 2,268	\$ 3,049
Production and intermediate-term	3,329	3,830	2,087
Farm-related business	1,116	1,168	–
Rural residential real estate	185	4	118
Total	\$ 6,229	\$ 7,270	\$ 5,254
<b>Accruing restructured loans:</b>			
Real estate mortgage	\$ 3,540	\$ 3,828	\$ 5,026
Production and intermediate-term	–	173	236
Rural residential real estate	6	10	12
Total	\$ 3,546	\$ 4,011	\$ 5,274
<b>Accruing loans 90 days or more past due:</b>			
Other (including Mission Related)	\$ 1,186	\$ 458	\$ –
Total	\$ 1,186	\$ 458	\$ –
Total nonperforming loans	\$ 10,961	\$ 11,739	\$ 10,528
Other property owned	–	–	31
Total nonperforming assets	\$ 10,961	\$ 11,739	\$ 10,559
Nonaccrual loans as a percentage of total loans	1.07%	1.32%	0.94%
Nonperforming assets as a percentage of total loans and other property owned	1.88%	2.14%	1.89%
Nonperforming assets as a percentage of capital	9.40%	10.75%	10.16%

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

	December 31,		
	2022	2021	2020
<b>Impaired nonaccrual loans:</b>			
Current as to principal and interest	\$ 884	\$ 704	\$ 880
Past due	5,345	6,566	4,374
Total	\$ 6,229	\$ 7,270	\$ 5,254
<b>Impaired accrual loans:</b>			
Restructured	\$ 3,546	\$ 4,011	\$ 5,274
90 days or more past due	1,186	458	–
Total	\$ 4,732	\$ 4,469	\$ 5,274
Total impaired loans	\$ 10,961	\$ 11,739	\$ 10,528
Additional commitments to lend	\$ –	\$ 83	\$ 20

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

Impaired loans:	December 31, 2022			Year Ended December 31, 2022	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Production and intermediate-term	\$ 2,088	\$ 2,134	\$ 852	\$ 2,164	\$ 107
Total	\$ 2,088	\$ 2,134	\$ 852	\$ 2,164	\$ 107
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 5,139	\$ 5,741	\$ –	\$ 5,326	\$ 262
Production and intermediate-term	1,241	1,692	–	1,286	63
Farm-related business	1,116	1,125	–	1,156	57
Rural residential real estate	191	193	–	198	10
Other (including Mission Related)	1,186	1,127	–	1,229	60
Total	\$ 8,873	\$ 9,878	\$ –	\$ 9,195	\$ 452
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 5,139	\$ 5,741	\$ –	\$ 5,326	\$ 262
Production and intermediate-term	3,329	3,826	852	3,450	170
Farm-related business	1,116	1,125	–	1,156	57
Rural residential real estate	191	193	–	198	10
Other (including Mission Related)	1,186	1,127	–	1,229	60
Total	\$ 10,961	\$ 12,012	\$ 852	\$ 11,359	\$ 559

Impaired loans:	December 31, 2021			Year Ended December 31, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Production and intermediate-term	\$ 2,105	\$ 2,116	\$ 869	\$ 1,983	\$ 68
Total	\$ 2,105	\$ 2,116	\$ 869	\$ 1,983	\$ 68
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 6,096	\$ 6,694	\$ –	\$ 5,743	\$ 197
Production and intermediate-term	1,898	2,300	–	1,789	61
Farm-related business	1,168	1,168	–	1,100	38
Rural residential real estate	14	14	–	14	–
Other (including Mission Related)	458	437	–	432	15
Total	\$ 9,634	\$ 10,613	\$ –	\$ 9,078	\$ 311
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 6,096	\$ 6,694	\$ –	\$ 5,743	\$ 197
Production and intermediate-term	4,003	4,416	869	3,772	129
Farm-related business	1,168	1,168	–	1,100	38
Rural residential real estate	14	14	–	14	–
Other (including Mission Related)	458	437	–	432	15
Total	\$ 11,739	\$ 12,729	\$ 869	\$ 11,061	\$ 379

Impaired loans:	December 31, 2020			Year Ended December 31, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Production and intermediate-term	\$ 1,041	\$ 1,262	\$ 346	\$ 1,078	\$ 16
Rural residential real estate	42	79	14	43	1
Total	\$ 1,083	\$ 1,341	\$ 360	\$ 1,121	\$ 17
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 8,075	\$ 8,099	\$ –	\$ 8,359	\$ 127
Production and intermediate-term	1,282	1,367	–	1,326	20
Rural residential real estate	88	87	–	92	1
Total	\$ 9,445	\$ 9,553	\$ –	\$ 9,777	\$ 148
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 8,075	\$ 8,099	\$ –	\$ 8,359	\$ 127
Production and intermediate-term	2,323	2,629	346	2,404	36
Rural residential real estate	130	166	14	135	2
Total	\$ 10,528	\$ 10,894	\$ 360	\$ 10,898	\$ 165



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

	Real Estate Mortgage	Production and Intermediate -term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Other (including Mission Related)	Total
<b>Activity related to the allowance for credit losses:</b>									
Balance at December 31, 2021	\$ 2,876	\$ 3,665	\$ 245	\$ -	\$ -	\$ 140	\$ -	\$ -	\$ 6,926
Charge-offs	(1)	(31)	-	-	-	-	-	-	(32)
Recoveries	20	68	-	-	-	-	-	-	88
Provision for (reversal of) loan losses	(67)	(254)	265	12	-	(39)	2	-	(81)
Balance at December 31, 2022	\$ 2,828	\$ 3,448	\$ 510	\$ 12	\$ -	\$ 101	\$ 2	\$ -	\$ 6,901
Balance at December 31, 2020	\$ 3,036	\$ 3,531	\$ 297	\$ -	\$ -	\$ 129	\$ -	\$ -	\$ 6,993
Charge-offs	(3)	(195)	-	-	-	-	-	-	(198)
Recoveries	27	156	-	-	-	23	-	-	206
Provision for (reversal of) loan losses	(184)	173	(52)	-	-	(12)	-	-	(75)
Balance at December 31, 2021	\$ 2,876	\$ 3,665	\$ 245	\$ -	\$ -	\$ 140	\$ -	\$ -	\$ 6,926
Balance at December 31, 2019	\$ 2,522	\$ 3,549	\$ 133	\$ -	\$ -	\$ 88	\$ -	\$ -	\$ 6,292
Charge-offs	(18)	(87)	-	-	-	-	-	-	(105)
Recoveries	64	46	23	-	-	3	-	-	136
Provision for loan losses	468	23	141	-	-	38	-	-	670
Balance at December 31, 2020	\$ 3,036	\$ 3,531	\$ 297	\$ -	\$ -	\$ 129	\$ -	\$ -	\$ 6,993
<b>Allowance on loans evaluated for impairment:</b>									
Individually	\$ -	\$ 852	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 852
Collectively	2,828	2,596	510	12	-	101	2	-	6,049
PCI**	-	-	-	-	-	-	-	-	-
Balance at December 31, 2022	\$ 2,828	\$ 3,448	\$ 510	\$ 12	\$ -	\$ 101	\$ 2	\$ -	\$ 6,901
Individually	\$ -	\$ 869	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 869
Collectively	2,876	2,796	245	-	-	140	-	-	6,057
PCI**	-	-	-	-	-	-	-	-	-
Balance at December 31, 2021	\$ 2,876	\$ 3,665	\$ 245	\$ -	\$ -	\$ 140	\$ -	\$ -	\$ 6,926
Individually	\$ -	\$ 346	\$ -	\$ -	\$ -	\$ 14	\$ -	\$ -	\$ 360
Collectively	3,036	3,185	297	-	-	115	-	-	6,633
PCI**	-	-	-	-	-	-	-	-	-
Balance at December 31, 2020	\$ 3,036	\$ 3,531	\$ 297	\$ -	\$ -	\$ 129	\$ -	\$ -	\$ 6,993
<b>Recorded investment in loans evaluated for impairment:</b>									
Individually	\$ 5,139	\$ 3,329	\$ 1,116	\$ -	\$ -	\$ 191	\$ -	\$ 1,186	\$ 10,961
Collectively	312,790	182,605	38,163	6,328	464	21,155	311	16,474	578,290
PCI**	-	-	-	-	-	-	-	-	-
Balance at December 31, 2022	\$ 317,929	\$ 185,934	\$ 39,279	\$ 6,328	\$ 464	\$ 21,346	\$ 311	\$ 17,660	\$ 589,251
Individually	\$ 6,096	\$ 4,003	\$ 1,168	\$ -	\$ -	\$ 14	\$ -	\$ 458	\$ 11,739
Collectively	295,335	186,299	17,762	-	-	20,187	-	23,670	543,253
PCI**	-	-	-	-	-	-	-	-	-
Balance at December 31, 2021	\$ 301,431	\$ 190,302	\$ 18,930	\$ -	\$ -	\$ 20,201	\$ -	\$ 24,128	\$ 554,992
Individually	\$ 8,075	\$ 2,323	\$ -	\$ -	\$ -	\$ 130	\$ -	\$ -	\$ 10,528
Collectively	291,751	196,026	18,014	-	-	15,401	-	34,719	555,911
PCI**	-	-	-	-	-	-	-	-	-
Balance at December 31, 2020	\$ 299,826	\$ 198,349	\$ 18,014	\$ -	\$ -	\$ 15,531	\$ -	\$ 34,719	\$ 566,439

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

\*\*Purchased credit impaired (PCI) loans. This table includes PCI loans currently classified as performing and not individually evaluated for impairment.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no new TDRs that occurred during the years ended December 31, 2022, 2021, and 2020.

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

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

The following table provides information at 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	2020	2022	2021	2020
Real estate mortgage	\$ 3,590	\$ 4,046	\$ 6,408	\$ 50	\$ 218	\$ 1,382
Production and intermediate-term	635	805	868	635	632	632
Rural residential real estate	6	10	12	—	—	—
Total loans	\$ 4,231	\$ 4,861	\$ 7,288	\$ 685	\$ 850	\$ 2,014
Additional commitments to lend	\$ —	\$ 83	\$ 20			

#### Note 4 — Investments

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

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 1.77 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled \$42.1 billion and shareholders' equity totaled \$1.5 billion. The Bank's earnings were \$412 million for 2022. In addition, the Association had investments of \$481 related to other Farm Credit institutions at December 31, 2022.

#### Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2022	2021	2020
Land	\$ 2,549	\$ 2,354	\$ 2,074
Buildings and improvements	6,115	4,836	5,077
Furniture and equipment	1,973	2,075	1,835
	10,637	9,265	8,986
Less: accumulated depreciation	2,970	3,249	3,228
Total	\$ 7,667	\$ 6,016	\$ 5,758

#### Note 6 — Debt

##### *Notes Payable to AgFirst Farm Credit Bank*

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

to credit quality and financial condition. At December 31, 2022, the Association's notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 5.12 percent for LIBOR-based loans, 5.05 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 5.25 percent for Prime-based loans, and the weighted average remaining maturities were 4.1 years, 4.2 years, and 1.6 years, respectively, at December 31, 2022. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.87 percent, and the weighted average remaining maturity was 12.4 years at December 31, 2022. The weighted average interest rate on all interest-bearing notes payable was 3.37 percent and the weighted average remaining maturity was 10.2 years at December 31, 2022. Variable rate and fixed rate notes payable represent approximately 1.41 percent and 98.59 percent, respectively, of total notes payable at December 31, 2022. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

#### Note 7 — Members' Equity

A description of the Association's capitalization requirements, 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 the lesser of \$1 thousand or

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

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement including Capital Conservation Buffer	Capital Ratios as of December 31,		
				2022	2021	2020
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	18.40%	18.18%	17.40%
Tier 1 Capital	6.0%	2.5%	8.5%	18.40%	18.18%	17.40%
Total Capital	8.0%	2.5%	10.5%	19.82%	19.71%	18.94%
Permanent Capital	7.0%	0.0%	7.0%	19.13%	18.97%	18.15%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	18.53%	17.42%	16.00%
URE and UREE Leverage	1.5%	0.0%	1.5%	18.19%	17.18%	15.78%

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

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

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

necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share.

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
B Common/Nonvoting	No	261,863	\$ 1,309
C Common/Voting	No	603,953	3,020
C Participation Certificates/Nonvoting	No	110,459	552
Total Capital Stock and Participation Certificates		976,275	\$ 4,881

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

#### Retained Earnings

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

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

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

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met. 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, 2022, allocated members' equity consisted of \$57,633 of nonqualified retained surplus.

#### Patronage Distributions

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

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash. Amounts not distributed are retained as unallocated member's equity.

#### Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 8 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid on all classes of stock and participation certificates.

The rate of dividends on Classes B or C Common Stock and participation certificates shall be at the same rate per share.

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

#### Transfer

Classes B and C Common Stocks and Participation Certificates may be transferred to persons or entities eligible to purchase or hold such Stock or Participation Certificates as provided in Section 830 of the Association's bylaws.

#### Impairment

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

1. Classes B and C Common Stock and Participation Certificates

#### Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or

retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Holders of Classes B and C Common Stock and Participation Certificates
2. Holders of allocated surplus evidenced by qualified written notices of allocation, in the order of the year of

issuance, until the total amount of such account has been distributed

3. Holders of nonqualified allocated surplus evidenced by written notices of allocation in the order of the year of issuance, until the total amount of such account has been distributed
4. Any remaining assets after such distribution shall be distributed to present and former Stockholders, to the extent practicable

## Note 8 — Fair Value Measurement

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

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

	December 31, 2022					
	Fair Value Measurement Using			Level 3	Total Fair Value	
	Level 1	Level 2	Level 3			
<b>Recurring assets</b>						
Assets held in trust funds	\$	–	\$	–	\$	–
<b>Nonrecurring assets</b>						
Impaired loans	\$	–	\$	–	\$	1,236
Other property owned	\$	–	\$	–	\$	–

	December 31, 2021					
	Fair Value Measurement Using			Level 3	Total Fair Value	
	Level 1	Level 2	Level 3			
<b>Recurring assets</b>						
Assets held in trust funds	\$	–	\$	–	\$	–
<b>Nonrecurring assets</b>						
Impaired loans	\$	–	\$	–	\$	1,236
Other property owned	\$	–	\$	–	\$	–

	December 31, 2020					
	Fair Value Measurement Using			Level 3	Total Fair Value	
	Level 1	Level 2	Level 3			
<b>Recurring assets</b>						
Assets held in trust funds	\$	–	\$	–	\$	–
<b>Nonrecurring assets</b>						
Impaired loans	\$	–	\$	–	\$	723
Other property owned	\$	–	\$	–	\$	33

## 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 \$701 for 2022, \$996 for 2021, and \$883 for 2020. At December 31, 2022, 2021, and 2020, the total liability balance for the IAR Plan presented in the District Combined Balance Sheets was \$7,335, \$8,686, and \$12,578, respectively. The IAR Plan was 88.52 percent, 90.25 percent, and 87.06 percent funded to the projected benefit obligation as of December 31, 2022, 2021, and 2020, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were \$208 for 2022, \$170 for 2021, and \$163 for 2020. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was \$167,895, \$209,599, and \$219,990 at December 31, 2022, 2021, and 2020, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. The 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 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 \$385, \$354, and \$341 for the years ended December 31, 2022, 2021, and 2020, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 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, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2022 amounted to \$13,238. During 2022, \$38,174 of new loans were made and repayments totaled \$39,213. In the opinion of management, none of these loans outstanding at December 31, 2022 involved more than a normal risk of collectibility.

**Note 11 — Commitments and Contingencies**

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2022, \$152,398 of commitments to extend credit and \$23 of commercial letters of credit were outstanding with no related reserve for unfunded commitments included in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2022, standby letters of credit outstanding totaled \$90 with expiration dates ranging from January 3, 2023 to August 19, 2027. The maximum potential amount of future payments that may be required under these guarantees was \$90.

**Note 12 — Income Taxes**

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2022	2021	2020
Current:			
Federal	\$ (14)	\$ 46	\$ 61
Deferred:	—	—	—
Total provision (benefit) for income taxes	\$ (14)	\$ 46	\$ 61

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

	December 31,		
	2022	2021	2020
Federal tax at statutory rate	\$ 2,266	\$ 3,136	\$ 2,804
Patronage distributions	(661)	(1,190)	(835)
Tax-exempt FLCA earnings	(1,288)	(1,976)	(1,790)
Change in deferred tax asset valuation allowance	(201)	174	(14)
Other	(130)	(98)	(104)
Provision (benefit) for income taxes	\$ (14)	\$ 46	\$ 61

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

	December 31,		
	2022	2021	2020
Deferred income tax assets:			
Allowance for loan losses	\$ 804	\$ 892	\$ 793
Nonaccrual Interest	194	140	88
Annual leave	64	68	67
Other postretirement benefits	—	—	—
Other Property Owned write-downs	—	—	2
Loss Carryforward	—	—	—
Gross deferred tax assets	1,062	1,100	950
Less: valuation allowance	(857)	(1,058)	(884)
Gross deferred tax assets, net of valuation allowance	205	42	66
Deferred income tax liabilities:			
Pensions and other postretirement benefits	—	—	—
FAS 91	—	—	—
Depreciation	(28)	(42)	(66)
Special Patronage	(177)	—	—
Gross deferred tax liability	(205)	—	—
Net deferred tax asset (liability)	\$ —	\$ —	\$ —

At December 31, 2022, deferred income taxes have not been provided by the Association on approximately \$3.8 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 \$857, \$1,058 and \$884 as of December 31, 2022, 2021 and 2020, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and no unrecognized tax benefits at December 31, 2022 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2019 and forward.

**Note 13 — Additional Financial Information**

**Quarterly Financial Information (Unaudited)**

	2022				
	First	Second	Third	Fourth	Total
Net interest income	\$ 4,074	\$ 3,572	\$ 3,788	\$ 4,001	\$ 15,435
Provision for (reversal of) allowance for loan losses	(46)	(38)	(348)	351	(81)
Noninterest income (expense), net	(1,868)	(1,926)	(1,853)	938	(4,709)
Net income	\$ 2,252	\$ 1,684	\$ 2,283	\$ 4,588	\$ 10,807

	2021				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,732	\$ 3,788	\$ 3,689	\$ 3,640	\$ 14,849
Provision for (reversal of) allowance for loan losses	(85)	102	(73)	(19)	(75)
Noninterest income (expense), net	(1,542)	(1,511)	(1,584)	4,602	(35)
Net income	\$ 2,275	\$ 2,175	\$ 2,178	\$ 8,261	\$ 14,889

	2020				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,641	\$ 3,692	\$ 3,695	\$ 3,784	\$ 14,812
Provision for (reversal of) allowance for loan losses	(10)	530	200	(50)	670
Noninterest income (expense), net	(1,620)	(1,469)	(1,431)	3,670	(850)
Net income	\$ 2,031	\$ 1,693	\$ 2,064	\$ 7,504	\$ 13,292

**Note 14 — Subsequent Events**

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





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