
Central Kentucky Agricultural Credit Association
THIRD QUARTER 2022

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2022 quarterly report of Central Kentucky Agricultural Credit Association, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Johnathan Noe
Chief Executive Officer



Marcus G. Barnett
Chief Financial Officer



James A. Lyons
Chairman of the Board

November 8, 2022

Central Kentucky Agricultural Credit Association

Report on Internal Control Over Financial Reporting

The Association’s principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association’s Consolidated Financial Statements. For purposes of this report, “internal control over financial reporting” is defined as a process designed by, or under the supervision of the Association’s principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association’s assets that could have a material effect on its Consolidated Financial Statements.

The Association’s management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2022. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the “COSO” criteria.

Based on the assessment performed, the Association’s management concluded that as of September 30, 2022, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association’s management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2022.



Johnathan Noe
Chief Executive Officer



Marcus G. Barnett
Chief Financial Officer

November 8, 2022

Central Kentucky Agricultural Credit Association

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Central Kentucky Agricultural Credit Association (the Association) for the period ended September 30, 2022. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2021 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

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. The Association's loan portfolio is diversified over a range of agricultural commodities in our region. The predominate enterprises are beef cattle and thoroughbred horses. The cattle industry has recovered from the effects of an over-supply caused by the pandemic. Prices for feeder and slaughter cattle are now back in line with more typical market conditions. There is optimism going into late 2022 and early 2023 for beef producers as cattle numbers nationwide are down, driving up demand. The equine industry is performing well with horse sales and races back to pre-pandemic levels. Thoroughbred sales thus far in 2022 have been strong and on the high end of the market, as well as the equine real estate market. The grain market has seen vast improvement as well with improved commodity pricing based on uncertainty in exports from the Ukraine-Russia corridor. Grain producers in our territory are experiencing average yields and high prices as harvest 2022 concludes, making for a profitable year for the industry. The outlook for 2023 is positive as well as prices appear to be holding strong for the time being. Optimism for grain and cattle is being tempered by concerns of another projected year of high input costs for production farm operations. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm employment in the area, significantly reduces the level of dependency on a given commodity.

The gross loan volume of the Association as of September 30, 2022 was \$680,609, an increase of \$35,913 as compared to \$644,696 at December 31, 2021. Net loans outstanding at

September 30, 2022 were \$676,198 as compared to \$640,220 at December 31, 2021. Net loans accounted for 96.62 percent of total assets at September 30, 2022, as compared to 95.86 percent of total assets at December 31, 2021. The increase in gross and net loan volume during the reporting period is due to growth in both real estate loans and production loans.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from \$1,569 at December 31, 2021, to \$1,044 at September 30, 2022. This decrease is primarily due to proceeds from the sale of collateral securing some accounts in combination with repayments of principal.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The \$4,411 allowance for loan losses at September 30, 2022 reflected a \$65 change from December 31, 2021, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2022

Net income for the three months ended September 30, 2022 totaled \$3,476 as compared to \$3,056 for the same period in 2021. Net interest income increased \$420 for the three months ended September 30, 2022 as compared to the same period in 2021. The Association recorded no provision for loan losses for the three months ended September 30, 2022, and no provision for loan losses for the same period in 2021.

At September 30, 2022, interest income on accruing loans increased \$1,206 compared to September 30, 2021. The Association recorded nonaccrual income of \$27 for the three months ended September 30, 2022, as compared to \$3 for the same period in 2021. Interest expense increased \$896 for the three months ended September 30, 2022 as compared to the comparable period of 2021. Movement in interest income and expense is primarily attributed to an increase in loan volume and an increase in overall interest rates on both the income and expense side. Noninterest income for the three months ended September 30, 2022 totaled \$1,570 as compared to \$1,498 for the same period of 2021, an increase of \$72...

Noninterest expense for the three months ended September 30, 2022 decreased \$4 compared to the same period of 2021. The small increase was largely due to a reduction in salary expense and professional fees related the Paycheck Protection Program (PPP) loan program in 2021.

The Association recorded a benefit for income taxes of \$6 for the three months ended September 30, 2022, as compared to a provision for income taxes of \$5 for the same period in 2021.

For the nine months ended September 30, 2022

Net income for the nine months ended September 30, 2022 totaled \$9,533, as compared to \$11,423 for the same period in 2021. Net interest income increased \$909 for the nine months ended September 30, 2022 as compared to the same period in 2021. The Association recorded no provision for loan losses for the nine months ended September 30, 2022, and no provision for loan losses for the same period in 2021.

At September 30, 2022, interest income on accruing loans increased \$2,592 compared to September 30, 2021. The Association recorded nonaccrual income of \$37 for the nine months ended September 30, 2022, as compared to \$13 for the same period in 2021. Interest expense increased \$1,707 for the nine months ended September 30, 2022 as compared to the comparable period of 2021. Movement in interest income and expense is primarily attributed to an increase in loan volume along with an increase in interest rates. Noninterest income for the nine months ended September 30, 2022 totaled \$4,615 as compared to \$7,384 for the same period of 2021, a decrease of \$2,769. The primary factor in the decrease in Noninterest income was fee income received in connection with the origination of PPP loans,

Noninterest expense for the nine months ended September 30, 2022 increased \$40 compared to the same period of 2021. The increase is due primarily to early year salary expense and an increase in FCSIC premium expense.

The Association recorded a benefit for income taxes of \$2 for the nine months ended September 30, 2022, as compared to a provision for income taxes of \$9 for the same period in 2021.

The financial results of this interim report are not necessarily indicative of the results expected for the year.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association’s credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. 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. The total notes payable to the Bank at September 30, 2022 was \$564,571 as compared to \$537,512 at December 31, 2021. The increase during the period is primarily attributed to an increase in loan volume, offset somewhat by receipt of patronage from the Bank.

LIBOR Transition

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

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

The Association has implemented LIBOR transition plans and continues to analyze potential risks associated with LIBOR transition including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks. See the Association’s 2021 Annual Report for further discussion on the LIBOR transition.

The following is a summary of Association variable-rate financial instruments tied to LIBOR at September 30, 2022:

| <i>(dollars in thousands)</i> | Due in 2023 | | Due After June 30, 2023 | Total |
|-------------------------------|----------------|---------------------------|----------------------------|--------|
| | Due in 2022 | (On or Before June 30) | | |
| Loans | \$ 5 | \$ 85 | \$ 697 | \$ 788 |
| Total Assets | \$ 5 | \$ 85 | \$ 697 | \$ 788 |
| Note Payable to Bank | \$ 4 | \$ 72 | \$ 582 | \$ 658 |
| Total Liabilities | \$ 4 | \$ 72 | \$ 582 | \$ 658 |

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after September 30, 2023 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable.

CAPITAL RESOURCES

Total members' equity at September 30, 2022 increased to \$129,044 from the December 31, 2021 total of \$119,800. The increase is primarily attributed to the Association's increase in retained earnings as a result of income recorded for the nine months ended September 30, 2022. Total capital stock and participation certificates were \$4,400 on September 30, 2022, compared to \$4,360 on December 31, 2021.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum levels of several regulatory capital and leverage ratios. Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced total surplus and core surplus ratios with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios, as well as a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio remains in effect. The capital ratios are calculated by dividing various levels of capital by a risk-adjusted asset base. Risk-adjusted assets have been defined by FCA regulations as balance sheet assets and off-balance sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. Calculation of permanent capital ratio risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations. The leverage ratios are calculated by dividing various types of capital by total regulatory assets (not risk-adjusted).

As of September 30, 2022, the Association's CET1 capital ratio and Tier 1 capital ratio were 18.53 percent, the Total capital ratio was 19.23 percent, the Permanent capital ratio was 18.68 percent, The Tier 1 leverage ratio was 17.16 percent, and the UREE leverage ratio was 16.54 percent. The Association exceeded the minimum regulatory standard for all of the ratios.

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 final rule is 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2021 Annual Report to Shareholders for recently adopted accounting pronouncements. Additional information on new and pending Updates is provided in the following table.

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

| Summary of Guidance | Adoption and Potential Financial Statement Impact |
|---|---|
| <i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i> | |
| <ul style="list-style-type: none"> 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. Changes the present incurred loss impairment guidance for loans to an expected loss model. 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. Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted. | <ul style="list-style-type: none"> Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, An allowance will be established for estimated credit losses on any debt securities, The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts, at the adoption date. The guidance is expected to be adopted January 1, 2023. |
| <i>ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures</i> | |
| <ul style="list-style-type: none"> This Update responds to feedback received during the Post Implementation Review process conducted by the FASB related to Topic 326. Troubled Debt Restructurings (TDRs) by Creditors The amendments eliminate 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. Vintage Disclosures—Gross Writeoffs For public business entities, the amendments in this Update require that an entity disclose current period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. | <ul style="list-style-type: none"> These amendments will be implemented in conjunction with the adoption of ASU 2016-13. |
| <i>ASU 2022-03—Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions</i> | |
| <ul style="list-style-type: none"> This Update clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. It also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The guidance clarifies accounting principles for measuring the fair value of an equity security subject to a contractual sale restriction and improves current GAAP by reducing diversity in practice, reducing cost and complexity, and increasing comparability of financial information across reporting entities. The amendments also require certain disclosures for equity securities subject to contractual sale restrictions. | <ul style="list-style-type: none"> For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. For all entities except investment companies, the Update should be applied prospectively with any adjustments from adoption recognized in earnings. Early adoption is permitted. |

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and unaudited quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or by writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association’s annual and unaudited quarterly reports are also available upon request free of charge by calling 1-859-253-3249, or writing Marcus Barnett, Chief Financial Officer, Central Kentucky Agricultural Credit Association, P.O. Box 1290, Lexington, KY 40588-1290, or accessing the website www.agcredionline.com. The Association prepares an unaudited quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Central Kentucky Agricultural Credit Association

Consolidated Balance Sheets

| <i>(dollars in thousands)</i> | September 30, 2022 <i>(unaudited)</i> | December 31, 2021 <i>(audited)</i> |
|--|---|--|
| Assets | | |
| Cash | \$ 1,024 | \$ 790 |
| Loans | 680,609 | 644,696 |
| Allowance for loan losses | (4,411) | (4,476) |
| Net loans | 676,198 | 640,220 |
| Loans held for sale | — | 272 |
| Accrued interest receivable | 6,829 | 5,573 |
| Equity investments in other Farm Credit institutions | 6,672 | 6,657 |
| Premises and equipment, net | 5,219 | 2,557 |
| Accounts receivable | 3,868 | 11,735 |
| Other assets | 68 | 83 |
| Total assets | \$ 699,878 | \$ 667,887 |
| Liabilities | | |
| Notes payable to AgFirst Farm Credit Bank | \$ 564,571 | \$ 537,512 |
| Accrued interest payable | 1,299 | 1,031 |
| Patronage refunds payable | 182 | 7,907 |
| Accounts payable | 1,268 | 888 |
| Advanced conditional payments | 2 | — |
| Other liabilities | 3,512 | 749 |
| Total liabilities | 570,834 | 548,087 |
| Commitments and contingencies (Note 7) | | |
| Members' Equity | | |
| Capital stock and participation certificates | 4,400 | 4,360 |
| Retained earnings | | |
| Allocated | 86,665 | 86,217 |
| Unallocated | 37,979 | 29,223 |
| Total members' equity | 129,044 | 119,800 |
| Total liabilities and members' equity | \$ 699,878 | \$ 667,887 |

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

Central Kentucky Agricultural Credit Association

Consolidated Statements of Comprehensive Income

(unaudited)

| <i>(dollars in thousands)</i> | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|----------|--|-----------|
| | 2022 | 2021 | 2022 | 2021 |
| Interest Income | | | | |
| Loans | \$ 8,169 | \$ 6,939 | \$ 22,810 | \$ 20,193 |
| Interest Expense | | | | |
| Notes payable to AgFirst Farm Credit Bank | 3,905 | 3,007 | 10,423 | 8,715 |
| Net interest income | 4,264 | 3,932 | 12,387 | 11,478 |
| Provision for loan losses | — | — | — | — |
| Net interest income after provision for loan losses | 4,264 | 3,932 | 12,387 | 11,478 |
| Noninterest Income | | | | |
| Loan fees | 194 | 313 | 729 | 3,927 |
| Lease income | — | — | — | 4 |
| Patronage refunds from other Farm Credit institutions | 1,364 | 1,169 | 3,802 | 3,348 |
| Gains (losses) on sales of rural home loans, net | 11 | 14 | 65 | 82 |
| Gains (losses) on sales of premises and equipment, net | — | — | 13 | 20 |
| Other noninterest income | 2 | 1 | 6 | 3 |
| Total noninterest income | 1,571 | 1,497 | 4,615 | 7,384 |
| Noninterest Expense | | | | |
| Salaries and employee benefits | 1,548 | 1,579 | 5,001 | 5,167 |
| Occupancy and equipment | 143 | 86 | 315 | 246 |
| Insurance Fund premiums | 251 | 185 | 733 | 537 |
| Purchased services | 110 | 231 | 353 | 486 |
| Data processing | 23 | 30 | 63 | 91 |
| Other operating expenses | 290 | 258 | 1,006 | 903 |
| Total noninterest expense | 2,365 | 2,369 | 7,471 | 7,430 |
| Income before income taxes | 3,470 | 3,060 | 9,531 | 11,432 |
| Provision (benefit) for income taxes | (6) | 4 | (2) | 9 |
| Net income | \$ 3,476 | \$ 3,056 | \$ 9,533 | \$ 11,423 |
| Other comprehensive income | — | — | — | — |
| Comprehensive income | \$ 3,476 | \$ 3,056 | \$ 9,533 | \$ 11,423 |

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

Central Kentucky Agricultural Credit Association
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

(dollars in thousands)

| | Capital Stock and Participation Certificates | Retained Earnings | | Total Members' Equity |
|---|---|-------------------|------------------|-----------------------------|
| | | Allocated | Unallocated | |
| Balance at December 31, 2020 | \$ 4,112 | \$ 74,792 | \$ 27,233 | \$ 106,137 |
| Comprehensive income | | | 11,423 | 11,423 |
| Capital stock/participation certificates issued/(retired), net | 201 | | | 201 |
| Patronage distribution adjustment | | 741 | (1,284) | (543) |
| Balance at September 30, 2021 | \$ 4,313 | \$ 75,533 | \$ 37,372 | \$ 117,218 |
| Balance at December 31, 2021 | \$ 4,360 | \$ 86,217 | \$ 29,223 | \$ 119,800 |
| Comprehensive income | | | 9,533 | 9,533 |
| Capital stock/participation certificates issued/(retired), net | 40 | | | 40 |
| Patronage distribution adjustment | | 448 | (777) | (329) |
| Balance at September 30, 2022 | \$ 4,400 | \$ 86,665 | \$ 37,979 | \$ 129,044 |

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

Central Kentucky Agricultural Credit Association

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization

The accompanying financial statements include the accounts of Central Kentucky Agricultural Credit Association, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2021, are contained in the 2021 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies

The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 5, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Effective During the Period

There were no changes in the accounting principles applied from the latest Annual Report.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses 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. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. 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.

A summary of loans outstanding at period end follows:

| | September 30, 2022 | December 31, 2021 |
|----------------------------------|--------------------|-------------------|
| Real estate mortgage | \$ 485,844 | \$ 453,888 |
| Production and intermediate-term | 171,180 | 170,704 |
| Processing and marketing | 5,350 | 2,221 |
| Farm-related business | 8,938 | 8,626 |
| Rural residential real estate | 9,297 | 9,257 |
| Total loans | \$ 680,609 | \$ 644,696 |

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

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

| | September 30, 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 | \$ - | \$ 68,841 | \$ - | \$ - | \$ 3,011 | \$ 12,316 | \$ 3,011 | \$ 81,157 |
| Production and intermediate-term | - | 14,293 | 138 | - | - | 1,269 | 138 | 15,562 |
| Processing and marketing | 695 | - | - | - | - | - | 695 | - |
| Farm-related business | - | 3,497 | - | - | - | 772 | - | 4,269 |
| Total | \$ 695 | \$ 86,631 | \$ 138 | \$ - | \$ 3,011 | \$ 14,357 | \$ 3,844 | \$ 100,988 |

| | December 31, 2021 | | | | | | | |
|----------------------------------|--------------------------|---------------------|---------------------------|---------------------|----------------------------|---------------------|--------------------------|---------------------|
| | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | \$ - | \$ 64,289 | \$ - | \$ - | \$ 2,942 | \$ 11,607 | \$ 2,942 | \$ 75,896 |
| Production and intermediate-term | - | 13,869 | 157 | - | - | 1,368 | 157 | 15,237 |
| Processing and marketing | 708 | - | - | - | - | - | 708 | - |
| Farm-related business | - | 3,953 | - | - | - | 801 | - | 4,754 |
| Total | \$ 708 | \$ 82,111 | \$ 157 | \$ - | \$ 2,942 | \$ 13,776 | \$ 3,807 | \$ 95,887 |

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

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

| | September 30, 2022 | December 31, 2021 | | September 30, 2022 | December 31, 2021 |
|--|--------------------|-------------------|---------------------------------------|--------------------|-------------------|
| Real estate mortgage: | | | Farm-related business: | | |
| Acceptable | 98.20% | 97.90% | Acceptable | 100.00% | 100.00% |
| OAEM | 1.39 | 1.41 | OAEM | - | - |
| Substandard/doubtful/loss | 0.41 | 0.69 | Substandard/doubtful/loss | - | - |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |
| Production and intermediate-term: | | | Rural residential real estate: | | |
| Acceptable | 98.50% | 98.16% | Acceptable | 95.99% | 98.44% |
| OAEM | 1.25 | 1.50 | OAEM | 2.93 | 0.33 |
| Substandard/doubtful/loss | 0.25 | 0.34 | Substandard/doubtful/loss | 1.08 | 1.23 |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |
| Processing and marketing: | | | Total loans: | | |
| Acceptable | 100.00% | 100.00% | Acceptable | 98.28% | 98.01% |
| OAEM | - | - | OAEM | 1.35 | 1.40 |
| Substandard/doubtful/loss | - | - | Substandard/doubtful/loss | 0.37 | 0.59 |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |

The following tables provide an aging analysis of the recorded investment of past due loans as of:

| | September 30, 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 | \$ 22 | \$ 400 | \$ 422 | \$ 489,664 | \$ 490,086 |
| Production and intermediate-term | 141 | 315 | 456 | 173,228 | 173,684 |
| Processing and marketing | - | - | - | 5,354 | 5,354 |
| Farm-related business | - | - | - | 8,997 | 8,997 |
| Rural residential real estate | - | 39 | 39 | 9,278 | 9,317 |
| Total | <u>\$ 163</u> | <u>\$ 754</u> | <u>\$ 917</u> | <u>\$ 686,521</u> | <u>\$ 687,438</u> |

| | December 31, 2021 | | | | |
|----------------------------------|-----------------------------------|-----------------------------|-------------------|--|-------------------|
| | 30 Through 89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans |
| Real estate mortgage | \$ 1,075 | \$ 691 | \$ 1,766 | \$ 455,589 | \$ 457,355 |
| Production and intermediate-term | 625 | 549 | 1,174 | 171,576 | 172,750 |
| Processing and marketing | - | - | - | 2,225 | 2,225 |
| Farm-related business | - | - | - | 8,663 | 8,663 |
| Rural residential real estate | 241 | - | 241 | 9,035 | 9,276 |
| Total | <u>\$ 1,941</u> | <u>\$ 1,240</u> | <u>\$ 3,181</u> | <u>\$ 647,088</u> | <u>\$ 650,269</u> |

Nonperforming assets (including accrued interest receivable as applicable) and related credit quality statistics at period end were as follows:

| | September 30, 2022 | December 31, 2021 |
|--|--------------------|-------------------|
| Nonaccrual loans: | | |
| Real estate mortgage | \$ 578 | \$ 892 |
| Production and intermediate-term | 365 | 563 |
| Rural residential real estate | 101 | 114 |
| Total | <u>\$ 1,044</u> | <u>\$ 1,569</u> |
| Accruing restructured loans: | | |
| Real estate mortgage | \$ 981 | \$ 1,213 |
| Production and intermediate-term | 501 | 528 |
| Total | <u>\$ 1,482</u> | <u>\$ 1,741</u> |
| Accruing loans 90 days or more past due: | | |
| Total | <u>\$ -</u> | <u>\$ -</u> |
| Total nonperforming loans | \$ 2,526 | \$ 3,310 |
| Other property owned | - | - |
| Total nonperforming assets | <u>\$ 2,526</u> | <u>\$ 3,310</u> |
| Nonaccrual loans as a percentage of total loans | 0.15% | 0.24% |
| Nonperforming assets as a percentage of total loans and other property owned | 0.37% | 0.51% |
| Nonperforming assets as a percentage of capital | <u>1.96%</u> | <u>2.76%</u> |

The following table presents information related to the recorded investment of impaired loans at period end. 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.

| | September 30, 2022 | December 31, 2021 |
|--------------------------------------|--------------------|-------------------|
| Impaired nonaccrual loans: | | |
| Current as to principal and interest | \$ 290 | \$ 229 |
| Past due | 754 | 1,340 |
| Total | <u>\$ 1,044</u> | <u>\$ 1,569</u> |
| Impaired accrual loans: | | |
| Restructured | \$ 1,482 | \$ 1,741 |
| 90 days or more past due | - | - |
| Total | <u>\$ 1,482</u> | <u>\$ 1,741</u> |
| Total impaired loans | \$ 2,526 | \$ 3,310 |
| Additional commitments to lend | \$ - | \$ - |

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

| Impaired loans: | September 30, 2022 | | | Three Months Ended September 30, 2022 | | Nine Months Ended September 30, 2022 | |
|---|------------------------|--------------------------------|----------------------|--|--|---|--|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized on Impaired Loans | Average Impaired Loans | Interest Income Recognized on Impaired Loans |
| With a related allowance for credit losses: | | | | | | | |
| Real estate mortgage | \$ 2 | \$ — | \$ — | \$ 1 | \$ — | \$ 2 | \$ — |
| Production and intermediate-term | 221 | 222 | 174 | 224 | 3 | 245 | 4 |
| Rural residential real estate | — | — | — | — | — | — | — |
| Total | \$ 223 | \$ 222 | \$ 174 | \$ 225 | \$ 3 | \$ 247 | \$ 4 |
| With no related allowance for credit losses: | | | | | | | |
| Real estate mortgage | \$ 1,557 | \$ 1,831 | \$ — | \$ 1,573 | \$ 19 | \$ 1,727 | \$ 27 |
| Production and intermediate-term | 645 | 698 | — | 650 | 7 | 715 | 11 |
| Rural residential real estate | 101 | 209 | — | 102 | 1 | 112 | 2 |
| Total | \$ 2,303 | \$ 2,738 | \$ — | \$ 2,325 | \$ 27 | \$ 2,554 | \$ 40 |
| Total impaired loans: | | | | | | | |
| Real estate mortgage | \$ 1,559 | \$ 1,831 | \$ — | \$ 1,574 | \$ 19 | \$ 1,729 | \$ 27 |
| Production and intermediate-term | 866 | 920 | 174 | 874 | 10 | 960 | 15 |
| Rural residential real estate | 101 | 209 | — | 102 | 1 | 112 | 2 |
| Total | \$ 2,526 | \$ 2,960 | \$ 174 | \$ 2,550 | \$ 30 | \$ 2,801 | \$ 44 |

| 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 |
| With a related allowance for credit losses: | | | | | |
| Real estate mortgage | \$ 2 | \$ — | \$ — | \$ 2 | \$ — |
| Production and intermediate-term | 381 | 381 | 268 | 428 | 5 |
| Rural residential real estate | — | — | — | — | — |
| Total | \$ 383 | \$ 381 | \$ 268 | \$ 430 | \$ 5 |
| With no related allowance for credit losses: | | | | | |
| Real estate mortgage | \$ 2,103 | \$ 2,372 | \$ — | \$ 2,365 | \$ 25 |
| Production and intermediate-term | 710 | 769 | — | 798 | 8 |
| Rural residential real estate | 114 | 211 | — | 128 | 2 |
| Total | \$ 2,927 | \$ 3,352 | \$ — | \$ 3,291 | \$ 35 |
| Total impaired loans: | | | | | |
| Real estate mortgage | \$ 2,105 | \$ 2,372 | \$ — | \$ 2,367 | \$ 25 |
| Production and intermediate-term | 1,091 | 1,150 | 268 | 1,226 | 13 |
| Rural residential real estate | 114 | 211 | — | 128 | 2 |
| Total | \$ 3,310 | \$ 3,733 | \$ 268 | \$ 3,721 | \$ 40 |

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

| | Real Estate Mortgage | Production and Intermediate- term | Agribusiness* | Rural Residential Real Estate | Total |
|---|-------------------------|---|---------------|-------------------------------------|------------|
| Activity related to the allowance for credit losses: | | | | | |
| Balance at June 30, 2022 | \$ 3,634 | \$ 775 | \$ 40 | \$ 27 | \$ 4,476 |
| Charge-offs | – | (65) | – | – | (65) |
| Recoveries | – | – | – | – | – |
| Provision for loan losses | 12 | (16) | 3 | 1 | – |
| Balance at September 30, 2022 | \$ 3,646 | \$ 694 | \$ 43 | \$ 28 | \$ 4,411 |
| Balance at December 31, 2021 | \$ 3,672 | \$ 748 | \$ 30 | \$ 26 | \$ 4,476 |
| Charge-offs | – | (65) | – | – | (65) |
| Recoveries | – | – | – | – | – |
| Provision for loan losses | (26) | 11 | 13 | 2 | – |
| Balance at September 30, 2022 | \$ 3,646 | \$ 694 | \$ 43 | \$ 28 | \$ 4,411 |
| Balance at June 30, 2021 | \$ 3,949 | \$ 651 | \$ 20 | \$ 17 | \$ 4,637 |
| Charge-offs | – | (6) | – | – | (6) |
| Recoveries | – | – | – | – | – |
| Provision for loan losses | (110) | 107 | 2 | 1 | – |
| Balance at September 30, 2021 | \$ 3,839 | \$ 752 | \$ 22 | \$ 18 | \$ 4,631 |
| Balance at December 31, 2020 | \$ 3,432 | \$ 1,101 | \$ 53 | \$ 51 | \$ 4,637 |
| Charge-offs | – | (6) | – | – | (6) |
| Recoveries | – | – | – | – | – |
| Provision for loan losses | 407 | (343) | (31) | (33) | – |
| Balance at September 30, 2021 | \$ 3,839 | \$ 752 | \$ 22 | \$ 18 | \$ 4,631 |
| Allowance on loans evaluated for impairment: | | | | | |
| Individually | \$ – | \$ 174 | \$ – | \$ – | \$ 174 |
| Collectively | 3,646 | 520 | 43 | 28 | 4,237 |
| Balance at September 30, 2022 | \$ 3,646 | \$ 694 | \$ 43 | \$ 28 | \$ 4,411 |
| Individually | \$ – | \$ 268 | \$ – | \$ – | \$ 268 |
| Collectively | 3,672 | 480 | 30 | 26 | 4,208 |
| Balance at December 31, 2021 | \$ 3,672 | \$ 748 | \$ 30 | \$ 26 | \$ 4,476 |
| Recorded investment in loans evaluated for impairment: | | | | | |
| Individually | \$ 1,559 | \$ 866 | \$ – | \$ 101 | \$ 2,526 |
| Collectively | 488,527 | 172,818 | 14,351 | 9,216 | 684,912 |
| Balance at September 30, 2022 | \$ 490,086 | \$ 173,684 | \$ 14,351 | \$ 9,317 | \$ 687,438 |
| Individually | \$ 2,105 | \$ 1,091 | \$ – | \$ 114 | \$ 3,310 |
| Collectively | 455,250 | 171,659 | 10,888 | 9,162 | 646,959 |
| Balance at December 31, 2021 | \$ 457,355 | \$ 172,750 | \$ 10,888 | \$ 9,276 | \$ 650,269 |

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs that occurred during the three months ended September 30, 2021.

| Outstanding Recorded Investment | Three Months Ended September 30, 2022 | | | | |
|---------------------------------|---------------------------------------|--------------------------|----------------------|-------|-------------|
| | Interest Concessions | Principal Concessions | Other Concessions | Total | Charge-offs |
| Pre-modification: | | | | | |
| Real estate mortgage | \$ 58 | \$ – | \$ – | \$ 58 | |
| Total | \$ 58 | \$ – | \$ – | \$ 58 | |
| Post-modification: | | | | | |
| Real estate mortgage | \$ 58 | \$ – | \$ – | \$ 58 | \$ – |
| Total | \$ 58 | \$ – | \$ – | \$ 58 | \$ – |

| Nine Months Ended September 30, 2022 | | | | | |
|--------------------------------------|----------------------|-----------------------|-------------------|-------|-------------|
| Outstanding Recorded Investment | Interest Concessions | Principal Concessions | Other Concessions | Total | Charge-offs |
| Pre-modification: | | | | | |
| Real estate mortgage | \$ 58 | \$ - | \$ - | \$ 58 | |
| Total | \$ 58 | \$ - | \$ - | \$ 58 | |
| Post-modification: | | | | | |
| Real estate mortgage | \$ 58 | \$ - | \$ - | \$ 58 | \$ - |
| Total | \$ 58 | \$ - | \$ - | \$ 58 | \$ - |

| Nine Months Ended September 30, 2021 | | | | | |
|--------------------------------------|----------------------|-----------------------|-------------------|--------|-------------|
| Outstanding Recorded Investment | Interest Concessions | Principal Concessions | Other Concessions | Total | Charge-offs |
| Pre-modification: | | | | | |
| Real estate mortgage | \$ - | \$ 208 | \$ - | \$ 208 | |
| Total | \$ - | \$ 208 | \$ - | \$ 208 | |
| Post-modification: | | | | | |
| Real estate mortgage | \$ - | \$ 208 | \$ - | \$ 208 | \$ - |
| Total | \$ - | \$ 208 | \$ - | \$ 208 | \$ - |

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

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

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

| | Total TDRs | | Nonaccrual TDRs | |
|----------------------------------|--------------------|-------------------|--------------------|-------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2022 | December 31, 2021 |
| Real estate mortgage | \$ 1,043 | \$ 1,287 | \$ 62 | \$ 74 |
| Production and intermediate-term | 556 | 528 | 55 | - |
| Total loans | \$ 1,599 | \$ 1,815 | \$ 117 | \$ 74 |
| Additional commitments to lend | \$ - | \$ - | | |

Note 3 — Investments

Equity Investments in Other Farm Credit System 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.

Associations are required to maintain ownership in AgFirst (AgFirst or 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 2.18 percent of the issued stock of the Bank as of September 30, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled \$41.7 billion and shareholders' equity totaled \$1.6 billion. The Bank's earnings were \$313 million for the first nine months of 2022. In addition, the Association held investments of \$241 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — 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 establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

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

Level 2 inputs 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 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 the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

| | September 30, 2022 | | | | |
|---|-----------------------|----------|---------|------------|------------------|
| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| <u>Recurring Measurements</u> | | | | | |
| Assets: | | | | | |
| Recurring Assets | \$ - | \$ - | \$ - | \$ - | \$ - |
| Liabilities: | | | | | |
| Recurring Liabilities | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Nonrecurring Measurements</u> | | | | | |
| Assets: | | | | | |
| Impaired loans | \$ 49 | \$ - | \$ - | \$ 49 | \$ 49 |
| Other property owned | - | - | - | - | - |
| Nonrecurring Assets | \$ 49 | \$ - | \$ - | \$ 49 | \$ 49 |
| <u>Other Financial Instruments</u> | | | | | |
| Assets: | | | | | |
| Cash | \$ 1,024 | \$ 1,024 | \$ - | \$ - | \$ 1,024 |
| Loans | 676,149 | - | - | 601,947 | 601,947 |
| Other Financial Assets | \$ 677,173 | \$ 1,024 | \$ - | \$ 601,947 | \$ 602,971 |
| Liabilities: | | | | | |
| Notes payable to AgFirst Farm Credit Bank | \$ 564,571 | \$ - | \$ - | \$ 504,445 | \$ 504,445 |
| Other Financial Liabilities | \$ 564,571 | \$ - | \$ - | \$ 504,445 | \$ 504,445 |

December 31, 2021

| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|-----------------------|---------|---------|------------|------------------|
| Recurring Measurements | | | | | |
| Assets: | | | | | |
| Recurring Assets | \$ - | \$ - | \$ - | \$ - | \$ - |
| Liabilities: | | | | | |
| Recurring Liabilities | \$ - | \$ - | \$ - | \$ - | \$ - |
| Nonrecurring Measurements | | | | | |
| Assets: | | | | | |
| Impaired loans | \$ 115 | \$ - | \$ - | \$ 115 | \$ 115 |
| Other property owned | - | - | - | - | - |
| Nonrecurring Assets | \$ 115 | \$ - | \$ - | \$ 115 | \$ 115 |
| Other Financial Instruments | | | | | |
| Assets: | | | | | |
| Cash | \$ 790 | \$ 790 | \$ - | \$ - | \$ 790 |
| Loans | 640,377 | - | - | 624,660 | 624,660 |
| Other Financial Assets | \$ 641,167 | \$ 790 | \$ - | \$ 624,660 | \$ 625,450 |
| Liabilities: | | | | | |
| Notes payable to AgFirst Farm Credit Bank | \$ 537,512 | \$ - | \$ - | \$ 527,079 | \$ 527,079 |
| Other Financial Liabilities | \$ 537,512 | \$ - | \$ - | \$ 527,079 | \$ 527,079 |

Uncertainty in Measurements of Fair Value

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated below. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Other Financial Instrument Fair Value Measurements

| | Valuation Technique(s) | Input |
|---|------------------------|---|
| Cash | Carrying value | Par/principal and appropriate interest yield |
| Loans | Discounted cash flow | Prepayment forecasts Probability of default Loss severity |
| Notes payable to AgFirst Farm Credit Bank | Discounted cash flow | Prepayment forecasts Probability of default Loss severity |

Note 6 — Employee Benefit Plans

The following is a table of retirement and other postretirement benefit expenses for the Association:

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------|--------------------|---------------|-------------------|---------------|
| | September 30, | | September 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| Pension | \$ 187 | \$ 201 | \$ 561 | \$ 605 |
| 401(k) | 72 | 76 | 233 | 247 |
| Other postretirement benefits | 23 | 21 | 63 | 60 |
| Total | <u>\$ 282</u> | <u>\$ 298</u> | <u>\$ 857</u> | <u>\$ 912</u> |

Expenses in the above table are computed using allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2022.

Further details regarding employee benefit plans are contained in the 2021 Annual Report to Shareholders.

Note 7 — Commitments and Contingent Liabilities

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 remote 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.

Note 8 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through November 8, 2022, which was the date the financial statements were issued.