Central Kentucky Agricultural Credit Association

2024 Annual Report

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

Message from the President

Turning the Page

As we turn the page on 2024, I feel like we are turning the page on more than just the calendar. Our Association has faced some changes and challenges over the last few years, and we are finally putting some of those in the rearview mirror. Looking back, we are now about eighteen months in to the implementation of some significant technology upgrades. I wish I could say that technology upgrades always generate immediate results, but that's just not the case. It's taken some time, but we are now smoothing out new processes and transitioning nicely into these new systems. On top of that, the interest rate market has stabilized after a long stretch of rising rates. We've even seen a decline in the Prime Rate, which immediately impacted shorter-term rates. There is also a drop in long-term rates in the future forecast, but may just take a little longer to get there.

In general, we've seen our marketplace return to normalcy, and our staff has taken advantage of it. The Association saw good growth in 2024, ending the year with an approximate 9% increase in loan volume. Coming off of 2023 where loan growth was tough, we stayed the course. Even with rising rates and competition, we kept pursuing business in our market. I probably say this a lot, but the years we've spent developing a strong market presence, focusing on customer service and building relationships has proved to be invaluable. The transition from 2023 to 2024 served as a reminder that we cannot always control the environment around us, or what changes may come our way, but we can control how we deliver service to our customers.

The recent growth we've had has provided excitement for the Association over the last year. Especially in our Frankfort market, where the growth has led to the construction of a new office building. We've outgrown our current location, so something had to give! After looking for a new location for several months, we found a lot to build on early in 2024, which is located just off Hwy 127 near interstate 64 (the intersection of Hwy 127 and Hwy 420 in Frankfort). The new office building is expected to be completed and open for business in the spring of 2025!

While the growth of 2024 was exciting, we still faced some adversity. The price of corn, beans and wheat all came down over the last 12 months. On top of that, growing conditions were not ideal in some areas, which significantly decreased crop yields. I fully expect that some of our borrowers will be impacted by this, but despite any setbacks, Central Kentucky Ag Credit will still be there to serve the needs of its members.

We may not be the largest lending institution around, but we offer a personal connection with our customers that includes an intimate knowledge of their operations. Our staff remains accessible to our customers, have a deep understanding of their needs, and they work hard to add value to those relationships. We believe ag lending is done best when there is a relationship involved. There are times when our customers simply need a loan, but often they need a trusted advisor that can offer much more. After all, we finance decisions that impact our customer's livelihood, and we don't take that lightly.

Being there for our members through good and bad times is all part of the cooperative model that is the Farm Credit System. We have a mission of serving the farmers and rural residents of central Kentucky. These same folks make up our customer base and are the owners of our organization. Our members elect their own representation in the form of a Board of Directors to set the direction of the organization. The end goal for our cooperative is to maximize the value of return to our members in the form of competitive interest rates, value added service and patronage dividends. In 2024, we turned the page on our 90th year in existence, and as long as we stick to those core principles, we have a recipe for success that will continue for many more.

/s/ Jonathan T. Noe
Chief Executive Officer

March 11, 2025

Report of Management

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

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

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

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2024 Annual Report of Central Kentucky Agricultural Credit Association, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

/s/ Joe Myers
Chairman of the Board

/s/ Jonathan T. Noe
Chief Executive Officer

/s/ Thomas B. Whitaker
Chief Financial Officer

March 11, 2025

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2024	2023	2022	2021	2020
Balance Sheet Data					
Cash	**$ 939**	$ 835	$ 1,683	$ 790	$ 2,009
Loans	**785,196**	713,736	683,497	644,696	597,624
Allowance for credit losses on loans	**(2,080)**	(2,522)	(4,417)	(4,476)	(4,637)
Net loans	**783,116**	711,214	679,080	640,220	592,987
Equity investments in other Farm Credit institutions	**12,414**	12,749	9,695	6,657	6,873
Other assets	**19,781**	17,492	16,490	20,220	19,160
Total assets	**$ 816,250**	$ 742,290	$ 706,948	$ 667,887	$ 621,029
Notes payable to AgFirst Farm Credit Bank*	**$ 653,497**	$ 588,371	$ 565,072	$ 537,512	$ 506,250
Accrued interest payable and other liabilities with maturities of less than one year	**9,393**	10,090	9,380	10,575	8,642
Total liabilities	**662,890**	598,461	574,452	548,087	514,892
Capital stock and participation certificates	**4,106**	4,494	4,403	4,360	4,112
Retained earnings					
Allocated	**110,320**	102,850	95,960	86,217	74,792
Unallocated	**38,934**	36,485	32,133	29,223	27,233
Total members' equity	**153,360**	143,829	132,496	119,800	106,137
Total liabilities and members' equity	**$ 816,250**	$ 742,290	$ 706,948	$ 667,887	$ 621,029
Statement of Income Data					
Net interest income	**$ 21,060**	$ 18,490	$ 16,700	$ 15,467	$ 14,461
Provision for (reversal of) allowance for credit losses	**(423)**	770	—	—	400
Noninterest income (expense), net	**(6,147)**	(4,022)	714	6,228	1,610
Net income	**$ 15,336**	$ 13,698	$ 17,414	$ 21,695	$ 15,671
Key Financial Ratios					
Rate of return on average:					
Total assets	**1.99%**	1.90%	2.53%	3.40%	2.69%
Total members' equity	**10.14%**	9.67%	13.83%	19.08%	15.58%
Net interest income as a percentage of average earning assets	**2.82%**	2.65%	2.48%	2.48%	2.54%
Net (chargeoffs) recoveries to average loans	**(0.002)%**	(0.009)%	(0.009)%	(0.026)%	(0.004)%
Total members' equity to total assets	**18.79%**	19.38%	18.74%	17.94%	17.09%
Debt to members' equity (:1)	**4.32**	4.16	4.34	4.58	4.85
Allowance for credit losses to loans	**0.26%**	0.35%	0.65%	0.69%	0.78%
Permanent capital ratio	**18.85%**	19.52%	19.06%	18.38%	17.46%
Common equity tier 1 capital ratio	**18.35%**	19.33%	18.92%	18.22%	17.29%
Tier 1 capital ratio	**18.35%**	19.33%	18.92%	18.22%	17.29%
Total regulatory capital ratio	**18.69%**	19.71%	19.61%	18.99%	18.11%
Tier 1 leverage ratio**	**17.41%**	18.12%	17.44%	16.74%	15.72%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**16.83%**	17.51%	16.82%	16.31%	15.36%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 5,433**	$ 4,992	$ 4,432	$ 7,737	$ 5,285
Nonqualified retained earnings	**7,502**	6,894	9,295	10,684	7,298

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2025.*

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Central Kentucky Agricultural Credit Association, (Association) for the year ended December 31, 2024 with comparisons to the years ended December 31, 2023 and December 31, 2022. 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 central Kentucky. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, *www.agfirst.com,* or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

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

FORWARD LOOKING INFORMATION

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

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

CRITICAL ACCOUNTING POLICIES

The Association's financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Consideration of significant accounting policies is critical to the understanding of the Association's results of operations and financial position because some accounting policies require complex or subjective judgments and estimates that may affect the reported amount of certain assets or liabilities as well as the recognition of certain income and expense items. In many instances, management has to make judgments about matters that are inherently uncertain. For a complete discussion of the Association's significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements. The following is a summary of the Association's most significant critical accounting policies:

- *Allowance for credit losses* (ACL) — Management estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures.

  The ACL comprises:

  - the allowance for credit losses on loans (ACLL), which covers the Association's loan portfolio and is presented separately on the Consolidated Balance Sheets,
  - the ACL on unfunded commitments, which is presented on the Consolidated Balance Sheets in other liabilities, and
  - the ACL on investment securities, which covers held-to-maturity and available-for-sale securities and is recognized within each investment securities classification on the Consolidated Balance Sheets.

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

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

ECONOMIC CONDITIONS

The agricultural economy of the territory serviced by the Association is very diverse. It is comprised of a significant beef concentration, as well as equine and grain. The cattle industry experienced record prices in 2024 as the U.S. cow herd continued to contract. There are no signs of herd expansion occurring, therefore there is optimism going into Spring of 2025 for beef producers as cattle numbers nationwide are down, driving up demand and prices. The equine industry is performing well. The Central Kentucky region experienced a significant drought in the summer of 2024, which took its toll on overall grain crop yields and impacted profitability of the sector. The outlook for 2025 will be modest returns as the commodity price outlook appears to be just above break-even levels given normal yields.

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

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

LOAN PORTFOLIO

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

The Association's loan volume by type for each of the past three years ended December 31 is shown below.

Loan Type	December 31, 2024		2023		2022	
	(dollars in thousands)					
Real estate mortgage	$ 552,133	70.32 %	$ 517,712	72.54 %	$ 497,391	72.77 %
Production and intermediate-term	198,852	25.32	170,861	23.94	162,989	23.85
Rural residential real estate	11,307	1.44	10,688	1.50	9,332	1.37
Processing and marketing	12,524	1.59	5,652	0.79	5,289	0.77
Communication	3,223	0.41	993	0.14	–	–
Water and Waste Disposal	688	0.09	792	0.11	–	–
Energy	291	0.04	–	–	–	–
Farm-related business	6,178	0.79	7,038	0.98	8,496	1.24
Total	$ 785,196	100.00 %	$ 713,736	100.00 %	$ 683,497	100.00 %

While the Association makes loans and provides financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, the loan portfolio is diversified.

The geographic distribution of the loan volume by branch for the past three years ended December 31 is as follows:

Branch/Operating Unit	December 31, 2024	2023	2022
Lebanon	23.56%	26.07%	25.66%
Lexington	21.41	21.81	21.25
Paris	17.92	16.49	16.77
Danville	13.63	13.71	13.76
Stanford	7.89	7.98	8.58
Richmond	6.85	6.98	7.35
Frankfort	6.96	6.62	6.53
Participations Purchased	1.78	0.34	0.10
	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial Classification (SIC) system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer. The major commodities in the Association's loan portfolio are shown below. The predominant commodities are beef cattle, row crops, horses, and hay/pasture, which constitutes 85 percent of the entire portfolio at December 31, 2024.

Commodity Group	December 31, 2024		2023		2022	
	(dollars in thousands)					
Beef Cattle	$ 293,391	37%	$ 280,773	39%	$ 278,407	41%
Row Crops	135,666	17	120,150	17	107,991	16
Horses	117,712	15	100,729	14	92,857	13
Hay/Pasture	122,333	15	99,205	14	92,543	13
Tobacco	13,580	2	15,356	2	18,402	3
Ag Services	9,515	1	12,477	2	11,436	2
Rural Home	11,982	2	10,566	1	8,013	1
Dairy	5,634	1	895	1	6,352	1
Other	75,383	10	73,585	10	67,496	10
Total	$ 785,196	100%	$ 713,736	100%	$ 683,497	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of beef cattle, horse producers, row crop producers and hay/pasture producers. Although a large percentage of the loan portfolio is concentrated in these commodities, many of these operations are diversified within their enterprise, reducing overall risk exposure. Demand for beef, prices of field grains, and international trade are some of the factors affecting the price of these commodities.

During 2024, the Association remained active 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.

	December 31,		
Loan Participations:	**2024**	**2023**	**2022**
	(dollars in thousands)		
Participations Purchased			
– FCS Institutions	$ 12,275	$ 2,687	$ 824
– Other Institutions	4,451	2,862	2,982
Participations Sold			
– FCS Institutions	(78,783)	(84,019)	(85,651)
– Other Institutions	(21,155)	(18,482)	(14,706)
Total	$ (83,212)	$ (96,952)	$ (96,551)

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, 2024.

The Association sells qualified long-term mortgage loans into the secondary market. For the periods ended December 31, 2024, 2023, and 2022, the Association originated loans for resale totaling $7,314, $4,929, and $20,541, respectively, which were subsequently sold into the secondary market.

The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2024, 2023, and 2022, the balance of these loans was $327, $352, and $378, respectively.

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 advanced in amounts up to 85 percent of the appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loan originations of more than $100 thousand. 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.

The Association reviews the credit quality of the loan portfolio on an ongoing basis as part of its risk management practices. Each loan is classified according to the Combined System 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 at December 31.

Credit Quality	**2024**	**2023**	**2022**
Acceptable & OAEM	99.69%	99.66%	99.64%
Substandard	0.31%	0.34%	0.36%
Doubtful/Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. Prior to the adoption of Financial Accounting Standards Board guidance entitled "Measurement of Credit Losses on Financial Instruments" (CECL) on January 1, 2023, nonperforming assets included accruing restructured loans and accrued interest. High-risk assets at December 31, are detailed in the following table:

	December 31,		
High-risk Assets	**2024**	**2023**	**2022**
	(dollars in thousands)		
Nonaccrual loans	$ 946	$ 872	$ 1,009
Restructured loans	–	–	1,479
Accruing loans 90 days past due	–	319	–
Total high-risk loans	946	1,191	2,488
Other property owned	–	–	–
Total high-risk assets	$ 946	$ 1,191	$ 2,488
Ratios			
Nonaccrual loans to total loans	0.12%	0.12%	0.15%
High-risk assets to total assets	0.12%	0.16%	0.35%

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans at December 31, 2024 were $946 compared to $872 and $1,009 at December 31, 2023 and 2022, respectively. Nonaccrual loans increased $74 or 8.49 percent during 2024 primarily due to transfers of accounts into nonaccrual status during the normal course of business. Nonaccrual volume was at historically low levels in 2023 and remained very low in 2024. Of the $946 in nonaccrual volume at December 31, 2024, $381 or 40.27 percent was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status, compared to $523 or 59.98 percent and $305 or 30.23 percent at December 31, 2023 and 2022, respectively.

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 Credit Losses

The allowance for credit losses (ACL) is an estimate of expected credit losses in the Association's portfolio. The Association determines the appropriate level of allowance for credit losses based on a disciplined process and methodology that incorporates expected probabilities of default, severity of loss based on historical portfolio performance, forecasts of future economic conditions, and management's judgment with respect to unique aspects of current and expected conditions that may not be contemplated in historical loss experience or forecasted economic conditions. For further details on the methodology used to determine the ACL, see Note 2, *Summary of Significant Accounting Policies*, and Note 3, *Loans and Allowance for Credit Losses*. The ACL was $2,080, $2,522, and $4,417 at December 31, 2024, 2023, and 2022, respectively.

The following table presents the activity in the allowance for credit losses for the most recent three years at December 31:

	December 31,		
Allowance for Credit Losses Activity	**2024**	**2023**	**2022**
Allowance for credit losses on loans – beginning balance	$ 2,522	$ 4,417	$ 4,476
Cumulative effect of a change in accounting principle	–	(2,585)	
Charge-offs:			
Real Estate Mortgage	–	(17)	
Production and intermediate-term	(17)	(45)	(64)
Total charge-offs	(17)	(62)	(64)
Recoveries:			
Production and intermediate-term	1	1	5
Total recoveries	1	1	5
Net (charge-offs) recoveries	(16)	(61)	(59)
Provision for (reversal of) credit losses on loans	(426)	751	–
Allowance for credit losses on loans – ending balance	$ 2,080	$ 2,522	$ 4,417
Allowance for unfunded commitments – beginning balance	$ 63	$ –	$ –
Cumulative effect of a change in accounting principle	–	44	–
Provision for (reversal of) unfunded commitments*	3	19	–
Allowance for unfunded commitments – ending balance	$ 66	$ 63	$ –
Total allowance for credit losses	$ 2,146	$ 2,585	$ 4,417

**Prior to the adoption of CECL, provision for (reversal of) unfunded commitments was recorded in losses/gains on other transactions.*

The allowance for credit losses as a percentage of loans outstanding and certain other credit quality indicators, at December 31, is shown below:

	December 31,		
	2024	2023	2022
Allowance for credit losses on loans to loans	0.3%	0.4%	0.6%
Allowance for credit losses on loans to nonaccrual loans	219.9%	289.2%	437.7%
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.002)%	(0.009)%	(0.009)%

The primary driver of the change in the allowance for credit losses was a reversal of the allowance for credit losses on loans resulting from an improvement in economic forecasts along with improvements in credit quality in the portfolio.

Periods of uncertainty in the general economic environment create the potential for prospective risks in the loan portfolio. See Note 3, *Loans and Allowance for Credit Losses*, in the Notes to the Consolidated Financial Statements and the *Critical Accounting Policies* section, above, for further information concerning the allowance for credit losses.

RESULTS OF OPERATIONS

Net Income

Net income totaled $15,336 for the year ended December 31, 2024, an increase of $1,638 from 2023. Net income of $13,698 for the year ended December 31, 2023 was a decrease of $3,716 from 2022. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

	Year Ended December 31,	
Change in Net Income	**2024**	**2023**
Net income (for prior year)	$ 13,698	$ 17,414
Increase (decrease) due to:		
Total interest income	5,299	6,458
Total interest expense	(2,729)	(4,668)
Net interest income	2,570	1,790
Provision for credit losses	1,193	(770)
Noninterest income	565	(4,723)
Noninterest expense	(2,696)	20
Provision for income taxes	6	(33)
Total increase (decrease) in net income	1,638	(3,716)
Net income	$ 15,336	$ 13,698

The Association's primary source of funding is provided by the Bank in the form of notes payable. See *Liquidity and Funding Sources* section below for additional detail on this relationship. Prior to January 1, 2024, the rate applied to the notes payable to the Bank included the Association's allocation of technology and software services provided by the Bank. Effective January 1, 2024, the Bank amended the line of credit agreement to exclude the Association's allocation of costs for Bank-provided services from the Direct Note rate. The master service agreement was also amended to bill the Association for these services separately on a monthly basis. This change had a minimal effect on the Association's net income but did result in a higher net interest margin as it effectively reclassified the Association's technology and software costs paid to the Bank from interest expense to noninterest expense. If this amendment had been in effect during 2023, the Association would have had lower interest expense and corresponding higher noninterest expense of $1,954 for the year ended December 31, 2023.

The increase in net income year over year can be primarily attributed to the change in the provision for credit losses, along with lower Farm Credit System Insurance rates on insured debt.

Net Interest Income

Net interest income was $21,060, $18,490, and $16,700 in 2024, 2023, and 2022, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

	Volume*	Rate	Total
12/31/24 - 12/31/23			
Interest income	$ 2,550	$ 2,749	$ 5,299
Interest expense	1,375	1,354	2,729
Change in net interest income	$ 1,175	$ 1,395	$ 2,570
12/31/23 - 12/31/22			
Interest income	$ 1,168	$ 5,290	$ 6,458
Interest expense	461	4,207	4,668
Change in net interest income	$ 707	$ 1,083	$ 1,790

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

The decrease in interest expense due to a decline in rates is primarily due to the change in Direct Note rate discussed above.

Noninterest Income

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

Noninterest Income	For the Year Ended December 31, 2024	2023	2022	Percentage Increase/(Decrease) 2024/2023	2023/2022
	(dollars in thousands)				
Loan fees	$ 1,096	$ 818	$ 916	33.99%	(10.70)%
Patronage refund from other Farm Credit Institutions	5,329	5,216	8,365	2.17	(37.64)
Gains (losses) on sales of rural home loans	11	11	74	–	(85.14)
Gains (losses) from sales of premises and equipment, net	(8)	–	1,407	–	(100.00)
Gains (losses) on other transactions	–	(2)	–	(100.00)	–
Insurance Fund refunds	181	–	–	–	–
Other noninterest income	1	2	6	(50.00)	(66.67)
Total noninterest income	$ 6,610	$ 6,045	$ 10,768	9.35%	(43.86)%

Noninterest income remained relatively flat from 2023 to 2024. The increase in noninterest income was driven by an insurance fund refund along with an increase in loan fees. The increase in loan fee income can be attributed to loan volume growth.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2024	2023	2022	Percentage Increase/(Decrease) 2024/2023	2023/2022
	(dollars in thousands)				
Salaries and employee benefits	$ 6,861	$ 6,577	$ 5,734	4.32 %	14.70 %
Post-retirement benefits	784	748	830	4.81	(9.88)
Occupancy and equipment expense	470	441	476	6.58	(7.35)
Insurance Fund premium	557	922	982	(39.59)	(6.11)
Purchased Services	3,256	578	540	463.32	7.04
(Gains) losses on other property owned, net	–	–	–	–	–
Other operating expense	804	770	1,494	4.42	(48.46)
Total noninterest expense	$ 12,732	$ 10,036	$ 10,056	26.86 %	(0.20) %

Purchased services increased in 2024 when compared to the prior year primarily as the result of the Direct Note rate change discussed above. Additionally, beginning in the third quarter of 2024, the Bank increased the cost of services provided to the Association and this increase resulted in additional expenses of $624 for the year ended December 31, 2024.

Income Taxes

The Association recorded a provision for income taxes of $25 for the year ended December 31, 2024, as compared to a provision of $31 for 2023 and a benefit of $2 for 2022. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning the Association's 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:

	For the 12 Months Ended		
Key Results of Operations Comparisons	**12/31/24**	**12/31/23**	**12/31/22**
Return on average assets	1.99%	1.90%	2.53%
Return on average members' equity	10.14%	9.67%	13.83%
Net interest income as a percentage of average earning assets	2.83%	2.65%	2.48%
Net (charge-offs) recoveries to average loans	(0.002)%	(0.009)%	(0.009)%

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, 2024, was $653,497 as compared to $588,371 at December 31, 2023 and $565,072 at December 31, 2022. The increase of $65,126 or 11.07 percent compared to December 31, 2023 was primarily attributable to an increase in loan volume in the normal course of business. The increase of $23,299 or 4.12 percent compared to December 31, 2022 was primarily attributable to an increase in loan volume in the normal course of business. The average volume of outstanding notes payable to the Bank was $615,562, $574,792, and $557,391 for the years ended December 31, 2024, 2023, and 2022 respectively. Refer to Note 6, *Debt, 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. 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, 2024.

Funds Management

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

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

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

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Debt, 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, Equity 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" section of this Management's Discussion and Analysis and in Note 6, *Debt, 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's 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 2024 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, 2024, was $153,360, an increase of $9,531 or 6.63 percent from a total of $143,829 at December 31, 2023. This increase is primarily the result of the retention of prior year earnings. At December 31, 2023, total members' equity increased $11,333 or 8.55 percent from $132,496 at December 31, 2022. This increase is primarily the result of the retention of prior year earnings.

Total capital stock and participation certificates were $4,106 on December 31, 2024, compared to $4,494 on December 31, 2023 and $4,403 on December 31, 2022. This decrease can be attributed to an increase in average loan size, which serves to reduce the amount of stock purchased.

FCA sets minimum regulatory capital requirements with a capital conservation buffer for System banks and associations. Capital adequacy is evaluated using a number of regulatory 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 2024	2023	2022
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	2.5%	7.0%	18.35%	19.33%	18.92%
Tier 1 Capital Ratio	6.0%	2.5%	8.5%	18.35%	19.33%	18.92%
Total Capital Ratio	8.0%	2.5%	10.5%	18.69%	19.71%	19.61%
Permanent Capital Ratio	7.0%	–%	7.0%	18.85%	19.52%	19.06%
Non-risk-adjusted:						
Tier 1 Leverage Ratio **	4.0%	1.0%	5.0%	17.41%	18.12%	17.44%
UREE Leverage Ratio	1.5%	–%	1.5%	16.83%	17.51%	16.82%

** Capital conservation buffers became fully effective January 1, 2020.*
*** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE equivalents.*

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

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 total patronage allocations of $12,935 in 2024, $11,886 in 2023, and $13,727 in 2022. Of those amounts, the Association declared a cash patronage payable of $5,433 in 2024, $4,992 in 2023, and $4,432 in 2022.

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

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

* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
*** Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $350 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. Actual program results in 2024 were 100% of program goals or better for young, beginning and small farmers.

The following table summarizes information regarding the Association's loans outstanding to YBS farmers and ranchers as of December 31, 2024:

(dollars in thousands)	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
Young only	97	1.41%	$ 19,965	2.54%
Young & beginning	52	0.76	6,399	0.81
Young & small	424	6.17	29,737	3.79
Beginning only	45	0.66	21,033	2.68
Beginning & small	743	10.81	92,944	11.84
Small only	3,358	48.87	203,088	25.87
Young, beginning, & small	808	11.76	57,193	7.28
Non-YBS	1,344	19.56	354,837	45.19
Association Total	6,871	100.00%	$ 785,196	100.00%

The 2022 USDA-NASS Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 13,453 reported farmers of which by definition 1,678 or 12.47 percent were Young, 4,739 or 35.23 percent were Beginning, and 11,951 or 88.84 percent were Small. Comparatively, as of December 31, 2024, the demographics of the Association's agricultural portfolio contained 3,800 farmers, of which by definition 831 or 21.87 percent were Young, 1,149 or 30.24 percent were Beginning, and 3,163 or 83.24 percent were Small.

In addition to our marketing strategies, in 2024 the Association utilized the following strategies and outreach programs:

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

The Association met its 2024 qualitative goals in coordination of programs, FSA Guarantee Loan Volume, Reduced Rate Coordination Program, and statewide youth program advertising and sponsorships.

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

Demographics

The Association has used the 2022 USDA-NASS Ag Census as our source of demographic data for the counties in our territory. There are several differences in the methods by which the demographic and YBS Farmer data is presented. Young farmers are defined by the FCA as 35 years old or less. The USDA-NASS Ag Census demographic stratification breaks at 36 years old, which was used to compare to FCA's definition. Beginning farmers are defined by the FCA as having 10 years or less farming experience. There is no measurement matching this definition in the USDA-NASS Ag Census; however the census does identify farmers on their current farm less than 10 years. That statistic may include beginning farmers, but may also include experienced farmers who have recently changed farmsteads. As with the case of the Young information, the Beginning information in the USDA-NASS Ag Census is not an exact comparison to the FCA definition, but will be utilized as the best comparison available. The FCA Small definition matches with the USDA-NASS Ag

Census delineation of farm entities with sales of less than $350 thousand. Other data differences: The farmers experience is as of the date of the USDA-NASS Ag Census, while the Association data is compiled as to the date the loan was made. Small farmers is by each individual farm entity from the USDA-NASS Ag Census data, while the Association data is compiled as of the date of the loan and represents the total value of sales of closely related entities rather than individual entities. The USDA-NASS Ag Census data reflects all farms whether they use debt or not. While the statistical results of the USDA-NASS Ag Census do not match the FCA definitions exactly and there are timing issues, they do provide a consistent source of measurement with which to assess Association targets and goals.

REGULATORY MATTERS

On November 29, 2024, the FCA proposed rule on internal control over financial reporting (ICFR) was published in the Federal Register. The proposed rule would amend the reporting regulations to require System Associations that meet certain asset thresholds or conditions, as well as the Banks, to obtain annual attestation reports from their external auditors that express an opinion on the effectiveness of ICFR. Associations would meet the requirement for an integrated audit if it represents 1% or more of total System assets; 15% or more of its District Bank's direct loans to Associations or if the Farm Credit Administration's Office of Examination determines that a material weakness in the Association's ICFR exists. The comment period was to end on January 28, 2025. However, the Farm Credit Administration granted a 60-day comment period extension that ends on March 31, 2025.

On February 8, 2024, the FCA approved a final rule to amend its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) exposures by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The rule would further align the FCA's risk-weightings with federal banking regulators and recognizes the increased risk posed by HVCRE exposures. The final rule excludes certain acquisition, development and construction loans that do not present as much risk and therefore do not warrant the risk weight for HVCRE. In addition, the final rule adds an exclusion for loans originated for less than $500,000. On October 16, 2024, the FCA extended the implementation date of this rule from January 1, 2025 to January 1, 2026.

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Description of Property

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

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

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

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

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

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

The total amount of compensation (in whole dollars) earned by the CEO and the highest paid officers (excluding the CEO) as a group during the years ended December 31, 2024, 2023 and 2022, is presented in the following tables. The first table presented illustrates actual compensation received in cash in the form of salary and bonus.

Name of	Received Compensation			
Individual or Number in Group	Year	Salary	Bonus	Total Received (a)
Jonathan T. Noe	2024	$ 315,000	$ 5,250	$ 320,250
Jonathan T. Noe	2023	$ 286,096	$ 4,750	$ 290,846
Jonathan T. Noe	2022	$ 237,565	$ 6,000	$ 243,565
4	2024	$ 637,000	$ 71,765	$ 708,765
5	2023	$ 701,435	$ 56,399	$ 757,834
5	2022	$ 736,185	$ 55,520	$ 791,705

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

Name of		Perquisites and Other Compensation			
Individual or Number in Group	Year	Change in Pension**	Perq./ Other*	Total Perq. and Other (b)	Total Compensation (a+b)
Jonathan T. Noe	2024	$ 109,398	$ 16,835	$ 126,233	$ 446,483
Jonathan T. Noe	2023	$ 196,332	$ 10,702	$ 207,034	$ 497,880
Jonathan T. Noe	2022	$ (181,875)	$ 8,414	$ (173,461)	$ 70,104
4	2024	$ 18,063	$ 34,819	$ 52,882	$ 761,647
5	2023	$ 211,986	$ 16,299	$ 228,285	$ 986,119
5	2022	$ (669,903)	$ 11,138	$ (658,765)	$ 132,940

**The Perquisites/Other amount disclosed in the above chart includes automobile compensation, cost of group insurance in excess of $50,000, and spousal travel.*
***This figure is a third party actuarial determination of the change in present value of the estimated pension cash flows. This does not represent any actual cash compensation provided to any employee, but is simply a change in the calculation that is affected by a number of assumptions and inputs.*

The total compensation paid during 2024 to any senior officer, or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

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

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

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

For pension values at December 31, 2024, an increase in the discount rate assumption caused pension values to decrease, but this was offset by other factors such as increases in compensation and additional years of service for plan participants. For pension values at December 31, 2023 and December 31, 2022, the increase was due to a decrease in the discount rate and an increase in benefit accruals due to the passage of another year.

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

Additional information on pension benefits related to the CEO and the highest paid officers as a group for the year ended December 31, 2024 is as follows:

Pension Benefits Table
As of December 31, 2024

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits**	Payments During 2024
Jonathan T. Noe	2024	Independent Associations Retirement Plan	24	$ 853,500	$ –
Senior Officers and Highly Compensated Employees:					
4	2024	Independent Associations Retirement Plan	27*	$ 1,700,020	$ –

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

In addition to a base salary, the branch lending staff can earn additional compensation under an incentive plan. There were no material changes to the incentive plan adopted for 2024 as the plan design continues to motivate new business development. In addition to this incentive plan for the lending staff, the entire Association staff, including senior officers, may receive a bonus at the discretion of the Board of Directors. While discretionary, these bonuses are generally based on the efforts of staff, including senior officers, in striving to accomplish business plan objectives such as profitability, growth, credit quality and overall performance. All of these bonuses were paid in the 2024 calendar year, except for incentive plan bonuses for October and November 2024. Those bonuses were earned and accrued in 2024, but were not paid until January 2025. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Directors

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $20,346 for 2024, $43,882 for 2023 and $18,578 for 2022.

Subject to approval by the board, the Association may allow directors an honoraria of $1,000 for attendance at meetings, committee meetings, or special assignments. A retainer is also paid to the chairman of the board of directors, the chairman of the audit and human resources committees, and other directors in the amount of $5,000, $4,500, and $4,000, respectively. An additional $200 dollar honorarium is paid to directors who serve as representatives to the District Advisory Committee, the Legislative Advisory Committee, and the Nominating Committee for AgFirst, FCB. In 2024, total cash compensation paid to directors as a group was $151,525. No non-cash compensation was paid to directors in 2024.

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

Joe Myers was re-elected to a four-year term on the Board of Directors at the 2022 Annual Meeting. His current term expires in 2026. He presently serves as Chairman of the Board, a position he has held since April 2024. During the past 5 years, Mr. Myers has owned and operated Myers Angus Farm, an 85 head purebred angus cow operation in Mercer County, marketing registered bulls, females, and embryos throughout Kentucky, multiple states, and foreign countries. He also serves as a Beef Sire Analyst for Select Sires, Inc. where he is responsible for purchasing/leasing bulls to enter into the A.I. Genetics Program. During 2024, Mr. Myers served 10 days at Association Board meetings, 12 days in other official activities, participated in conference calls, and was paid $24,275 in compensation.

Lee Blandford was re-elected to a four-year term on the Board of Directors at the 2021 Annual Meeting. Her current term expires in 2025. Ms. Blandford presently serves as Vice Chair of the Board, a position she has held since April of 2024. Ms. Blandord presently serves as Chair of the Audit Committee, a position she has held since March 2019. During the past 5 years, Ms. Blandford has served as Chief Financial officer for Clements Ag Supply, Inc. in Springfield, Kentucky. She owns and leases land in Washington County where she operates a cow/calf operation, backgrounds feeder cattle, and produces 300 acres of hay. Ms. Blandford also has a 50% ownership interest in Blandford Mills, LLC, a feed and farm supply business. Since 2019, Ms. Blandford has served as Chair of the Board Audit Committee. During 2024, Ms. Blandford served 9 days at Association Board meetings, 9 days in other official activities, participated in conference calls, and was paid $21,500 in compensation.

James Alvin Lyons was re-elected to a four-year term on the Board of Directors at the 2024 Annual Meeting. His current term expires in 2028. He served as Chairman of the Board from April 2011 through March 2024. During the past 5 years, Mr. Lyons has produced alfalfa, corn, soybeans, wheat, has a commercial cow-calf program and backgrounds feeder cattle on his farming operation in Scott County. Mr. Lyons serves as a Board member of the Scott County Farm Bureau and is a member of the Scott County Beef Improvement Board. From 2018 through 2021, Mr. Lyons served as a director for the AgFirst Farm Credit Bank. During 2024, Mr. Lyons served 9 days at Association Board meetings, 7 days in other official activities, participated in conference calls, and was paid $19,250 in compensation.

Patrick Higginbotham was re-elected to a four-year term on the Board of Directors at the 2023 Annual Meeting. His current term expires in 2027. During the past five years, Mr. Higginbotham has served as a pharmacist at the Veterans Administration Hospital in Lexington, Kentucky. He also serves as an adjunct faculty member at the University of Kentucky College of Pharmacy. He runs a horse boarding operation and produces hay on his farm in Fayette County. In addition, Mr. Higginbotham serves on the Fayette County Farm Bureau Board of Directors, and is a deacon for Trinity Christian Fellowship Church. He also serves on the Fayette County Ag Development Council. During 2024, Mr. Higginbotham served 10 days at Association Board meetings, 5 days in other official activities, participated in conference calls, and was paid $17,000 in compensation.

James C. ("Jim") Rankin III was re-elected to a four-year term on the Board of Directors at the 2024 Annual Meeting. His current term expires in 2028. He served as Vice Chairman of the Board from February 2014 until July 2022. During the past 5 years, Mr. Rankin has produced alfalfa and mixed grass hay for use in his farming operation in Bourbon County. In addition, Mr. Rankin has a cow/calf operation and backgrounds feeder cattle. During 2024, Mr. Rankin served 10 days at Association Board meetings, 8 days in other official activities, participated in conference calls, and was paid $20,000 in compensation.

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

Dan Grigson was first elected as an Outside Director by the Association Board of Directors in 2017. He was re-elected in 2021. His current term expires in April 2025. Mr. Grigson retired from the University of Kentucky College of Agriculture in 2016 where he served as an Agricultural Extension Agent from 1974 through 2016. He currently serves as Funeral Director's Assistant at Spurlin Funeral Home. During the past 5 years Mr. Grigson has served as a director on the Buffalo Springs Cemetery Board. He is currently Vice President of the Lincoln County Fair Board, and Vice President of the Lincoln County Farm Bureau Federation. Mr. Grigson also serves on the District Legislative Advisory Council for the AgFirst Farm Credit Bank. During 2024, Mr. Grigson served 10 days at Association Board meetings, 14 days in other official activities, participated in conference calls, and was paid $26,000 in compensation.

Mary-Lynn Hinkel was first elected as an Outside Director by the Association Board of Directors in 2014. She was reelected in 2024, and her current term expires in April 2028. Ms. Hinkel retired from CMTA Consulting Engineers in 2019 where she served as HR Staffing Coordinator, recruiting staff for six offices located throughout the United States. Previously, Ms. Hinkel was Associate Director of Tax Services at Dean, Dorton, Allen, Ford, PLLC where she provided compliance services including tax, financial statements and accounting for business, individuals, and non-profit organizations. Her services concentrated in physicians and the healthcare industry, manufacturing, and real estate of closely-held and family-owned businesses. During the past 5 years Ms. Hinkel served as a Board Member and Treasurer for Lexington and Central Kentucky Youth Salute. Ms. Hinkel has also served as a Board Member for Mark Hinkel Pedaling Forward, a 501(c)3. Ms. Hinkel also served as a Member of and Treasurer for the Board of the Flats II at Rosemary Beach HOA. Ms. Hinkel previously served as a Banking Committee member for Equestrian Events, Inc. Since 2019, Ms. Hinkel has served as Chair of the Board Human Resources Committee. She previously served as Chair of the Board Audit Committee from 2017 to 2019, and has served as the Board Financial Expert since 2017. During 2024, Ms. Hinkel served 10 days at Association Board meetings, 11 days in other official activities, participated in conference calls, and was paid $23,500 in compensation.

Transactions with Senior Officers and Directors

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

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2024, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2024.

Involvement in Certain Legal Proceedings

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

Involvement in Unincorporated Business Entities

The Association holds no equity investments in Unincorporated Business Entities (UBEs) at December 31, 2024.

Relationship with Independent Auditors

There were no changes in or material disagreements with our independent auditors on any matter of accounting principle or financial statement disclosure during this period.

Aggregate fees incurred by the Association for services rendered by its independent auditors for the year ended December 31, 2024 were as follows:

	2024
Independent Auditors	
PricewaterhouseCoopers LLP	
Audit services	$ 101,184
Total	$ 101,184

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 11, 2025 and the report of management, which appear in this Annual Report are incorporated herein by reference.

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

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Unaudited Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Unaudited Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

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

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

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 2024, 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 AU-C 260 and 265 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from Central Kentucky Agricultural Credit Association. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2024. The foregoing report is provided by the following independent directors, who constitute the Committee:

/s/ Lee M. Blandford
Chair of the Audit Committee

Members of Audit Committee

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

March 11, 2025

Report of Independent Auditors

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

Opinion

We have audited the accompanying consolidated financial statements of Central Kentucky Agricultural Credit Association and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2024, 2023, and 2022, 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, 2024, 2023, and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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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 2024 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

Charlotte, North Carolina
March 11, 2025

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2024	2023	2022
Assets			
Cash	**$ 939**	$ 835	$ 1,683
Loans	**785,196**	713,736	683,497
Allowance for credit losses on loans	**(2,080)**	(2,522)	(4,417)
Net loans	**783,116**	711,214	679,080
Accrued interest receivable	**8,733**	8,003	6,848
Equity investments in other Farm Credit institutions	**12,414**	12,749	9,695
Premises and equipment, net	**5,602**	4,264	4,339
Accounts receivable	**5,370**	5,174	5,232
Other assets	**76**	51	71
Total assets	**$ 816,250**	$ 742,290	$ 706,948
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 653,497**	$ 588,371	$ 565,072
Accrued interest payable	**2,031**	1,844	1,490
Patronage refunds payable	**5,712**	5,169	4,680
Accounts payable	**585**	1,194	1,474
Advanced conditional payments	**67**	79	—
Other liabilities	**998**	1,804	1,736
Total liabilities	**662,890**	598,461	574,452
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**4,106**	4,494	4,403
Retained earnings			
Allocated	**110,320**	102,850	95,960
Unallocated	**38,934**	36,485	32,133
Total members' equity	**153,360**	143,829	132,496
Total liabilities and members' equity	**$ 816,250**	$ 742,290	$ 706,948

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2024	2023	2022
Interest Income			
Loans	**$ 43,169**	$ 37,870	$ 31,412
Interest Expense	**22,109**	19,380	14,712
Net interest income	**21,060**	18,490	16,700
Provision for (reversal of) allowance for credit losses	**(423)**	770	—
Net interest income after provision for (reversal of) allowance for credit losses	**21,483**	17,720	16,700
Noninterest Income			
Loan fees	**1,096**	818	916
Patronage refunds from other Farm Credit institutions	**5,329**	5,216	8,365
Gains (losses) on sales of rural home loans, net	**11**	11	74
Gains (losses) on sales of premises and equipment, net	**(8)**	—	1,407
Gains (losses) on other transactions	**—**	(2)	—
Insurance Fund refunds	**181**	—	—
Other noninterest income	**1**	2	6
Total noninterest income	**6,610**	6,045	10,768
Noninterest Expense			
Salaries and employee benefits	**6,861**	6,577	6,563
Occupancy and equipment	**470**	441	476
Insurance Fund premiums	**557**	922	982
Purchased services	**3,256**	578	540
Data processing	**169**	114	91
Other operating expenses	**1,419**	1,404	1,404
Total noninterest expense	**12,732**	10,036	10,056
Income before income taxes	**15,361**	13,729	17,412
Provision (benefit) for income taxes	**25**	31	(2)
Net income	**$ 15,336**	$ 13,698	$ 17,414
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 15,336**	$ 13,698	$ 17,414

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2021	$ 4,360	$ 86,217	$ 29,223	$ 119,800
Comprehensive income			17,414	17,414
Capital stock/participation certificates issued/(retired), net	43			43
Patronage distribution				
Cash			(4,432)	(4,432)
Nonqualified retained earnings		9,295	(9,295)	—
Patronage distribution adjustment		448	(777)	(329)
Balance at December 31, 2022	$ 4,403	$ 95,960	$ 32,133	$ 132,496
Cumulative effect of change in accounting principle			2,541	2,541
Comprehensive income			13,698	13,698
Capital stock/participation certificates issued/(retired), net	91			91
Patronage distribution				
Cash			(4,992)	(4,992)
Nonqualified retained earnings		6,894	(6,894)	—
Patronage distribution adjustment		(4)	(1)	(5)
Balance at December 31, 2023	$ 4,494	$ 102,850	$ 36,485	$ 143,829
Comprehensive income			**15,336**	**15,336**
Capital stock/participation certificates issued/(retired), net	**(388)**			**(388)**
Patronage distribution				
Cash			**(5,433)**	**(5,433)**
Nonqualified retained earnings		**7,502**	**(7,502)**	**—**
Patronage distribution adjustment		**(32)**	**48**	**16**
Balance at December 31, 2024	**$ 4,106**	**$ 110,320**	**$ 38,934**	**$ 153,360**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2024	2023	2022
Cash flows from operating activities:			
Net income	**$ 15,336**	$ 13,698	$ 17,414
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**201**	201	203
Amortization (accretion) of net deferred loan costs (fees)	**(4)**	(1)	—
Provision for (reversal of) allowance for credit losses	**(423)**	770	—
(Gains) losses on sales of premises and equipment, net	**8**	—	(1,407)
(Gains) losses on sales of rural home loans, net	**(11)**	(11)	(74)
(Gains) losses on other transactions	**—**	2	—
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(7,314)**	(4,929)	(20,541)
Proceeds from sales of loans held for sale, net	**7,325**	4,940	20,887
(Increase) decrease in accrued interest receivable	**(730)**	(1,155)	(1,275)
(Increase) decrease in accounts receivable	**(196)**	58	6,503
(Increase) decrease in other assets	**(25)**	20	12
Increase (decrease) in accrued interest payable	**187**	354	459
Increase (decrease) in accounts payable	**(609)**	(280)	586
Increase (decrease) in other liabilities	**(807)**	4	987
Total adjustments	**(2,398)**	(27)	6,340
Net cash provided by (used in) operating activities	**12,938**	13,671	23,754
Cash flows from investing activities:			
Net (increase) decrease in loans	**(71,472)**	(30,300)	(38,860)
(Increase) decrease in equity investments in other Farm Credit institutions	**335**	(3,054)	(3,038)
Purchases of premises and equipment	**(1,549)**	(126)	(3,033)
Proceeds from sales of premises and equipment	**—**	—	2,455
Net cash provided by (used in) investing activities	**(72,686)**	(33,480)	(42,476)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**65,126**	23,299	27,560
Net increase (decrease) in advanced conditional payments	**(12)**	79	—
Capital stock and participation certificates issued/(retired), net	**(388)**	91	43
Patronage refunds and dividends paid	**(4,874)**	(4,508)	(7,988)
Net cash provided by (used in) financing activities	**59,852**	18,961	19,615
Net increase (decrease) in cash	**104**	(848)	893
Cash, beginning of period	**835**	1,683	790
Cash, end of period	**$ 939**	$ 835	$ 1,683
Supplemental schedule of non-cash activities:			
Estimated cash dividends or patronage distributions declared or payable	**$ 5,433**	$ 4,992	$ 4,432
Cumulative effect of change in accounting principle	**—**	2,541	—
Supplemental information:			
Interest paid	**$ 21,922**	$ 19,026	$ 14,253
Taxes (refunded) paid, net	**70**	(2)	20

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

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

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

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

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

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

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

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

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

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

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information systems, and marketing. Prior to January 1, 2024, the costs of these support services were primarily included in the interest expense of the Direct Note. After January 1, 2024, the fees charged by the Bank for these support services are included in the Association's noninterest expense or in some cases billed directly to certain Associations that use a specific service.

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

A. **Accounting Standard Updates (ASUs) Effective During the Period:** In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 - Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The amendments in this standard require qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. The amendments are effective for annual periods beginning after December 15, 2025. The adoption of this guidance is not expected to have a material impact on the Association's financial condition, results of operations or cash flows but will impact the income tax disclosures.

B. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held $575 of cash in excess of insured amounts.

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

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

Nonaccrual Loans

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

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

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

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

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

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

Allowance for Credit Losses
The Association adopted the Financial Accounting Standards Board (FASB) guidance entitled “Measurement of Credit Losses on Financial Instruments” and other subsequently issued accounting standards updates related to credit losses on January 1, 2023. This guidance replaced the current incurred loss impairment methodology with a single allowance framework for financial assets that estimates the current expected credit losses (CECL) over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This guidance was applied on a modified retrospective basis. The ACL takes into consideration relevant information about past events, current conditions and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals and modifications unless the extension or renewal options are not unconditionally cancellable. The ACL comprises:

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

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

Allowance for Credit Losses on Loans
The ACLL represents management’s estimate of credit losses over the remaining expected life of loans. Loans are evaluated on the amortized cost basis, including premiums, discounts and fair value accounting adjustments.

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

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

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

The credit risk rating methodology is a key component of the Association's ACLL 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.

The components of the ACLL that share common risk characteristics also considers factors for each loan pool to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to:

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

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

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

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

Allowance for Credit Losses on Unfunded Commitments

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

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

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

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

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

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

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

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

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

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

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

Additional information may be found in Note 9, *Employee Benefit Plans*.

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, *Employee Benefit Plans* and in the Notes to the Annual Information Statement of the Farm Credit System.

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

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

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

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

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

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

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

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

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

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

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

A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: nonaccrual 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, *Fair Value Measurement*.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Credit Losses

For a description of the Association's accounting for loans, including nonaccrual loans, and the allowance for credit losses on loans, see Note 2 subsection C above.

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, 2024	December 31, 2023	December 31, 2022
Real estate mortgage	$ 552,133	$ 517,712	$ 497,391
Production and intermediate-term	198,852	170,861	162,989
Agribusiness:			
Processing and marketing	12,524	5,652	5,289
Farm-related business	6,178	7,038	8,496
Rural infrastructure:			
Communication	3,223	993	–
Power and water/waste disposal	979	792	–
Rural residential real estate	11,307	10,688	9,332
Total loans	$ 785,196	$ 713,736	$ 683,497

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, 2024					
	Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 57,356	$ 2,738	$ 18,095	$ 2,738	$ 75,451
Production and intermediate-term	395	19,193	1,713	2,420	2,108	21,613
Agribusiness	8,224	2,234	–	640	8,224	2,874
Rural infrastructure	4,216	–	–	–	4,216	–
Total	$ 12,835	$ 78,783	$ 4,451	$ 21,155	$ 17,286	$ 99,938

	December 31, 2023					
	Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 63,097	$ 2,862	$ 15,252	$ 2,862	$ 78,349
Production and intermediate-term	66	18,068	–	2,507	66	20,575
Agribusiness	832	2,854	–	723	832	3,577
Rural infrastructure	1,789	–	–	–	1,789	–
Total	$ 2,687	$ 84,019	$ 2,862	$ 18,482	$ 5,549	$ 102,501

	December 31, 2022					
	Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 67,495	$ 2,982	$ 12,705	$ 2,982	$ 80,200
Production and intermediate-term	134	14,749	–	1,239	134	15,988
Agribusiness	690	3,407	–	762	690	4,169
Total	$ 824	$ 85,651	$ 2,982	$ 14,706	$ 3,806	$ 100,357

Loan Quality

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 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). See further discussion in Note 2, *Summary of Significant Accounting Policies*, subsection C, *Loans and Allowance for Credit Losses*, above.

Each of the ratings carries a distinct percentage of default probability. The 14-point 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. These categories are defined as follows:

- Acceptable – Assets are expected to be fully collectible and represent the highest quality. In addition, these assets may include loans with properly executed and structured guarantees that might otherwise be classified less favorably.
- 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 shows loans under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans by loan type:

	December 31, 2024	2023	2022*
Real estate mortgage:			
Acceptable	98.20%	97.70%	98.41%
OAEM	1.43	1.94	1.21
Substandard/doubtful/loss	0.37	0.36	0.38
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	97.44%	98.55%	98.35%
OAEM	2.37	1.16	1.37
Substandard/doubtful/loss	0.19	0.29	0.28
	100.00%	100.00%	100.00%
Agribusiness:			
Acceptable	100.00%	62.29%	100.00%
OAEM	–	37.71	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural infrastructure			
Acceptable	100.00%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	–%
Rural residential real estate:			
Acceptable	99.38%	97.29%	96.04%
OAEM	0.46	2.44	3.32
Substandard/doubtful/loss	0.16	0.27	0.64
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	98.08%	97.27%	98.39%
OAEM	1.61	2.39	1.25
Substandard/doubtful/loss	0.31	0.34	0.36
	100.00%	100.00%	100.00%

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

Accrued interest receivable on loans of $8,733, $8,003, and $6,848 at December 31, 2024, 2023, and 2022, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

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

December 31, 2024	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 2,332	$ 286	$ 2,618	$ 549,515	$ 552,133
Production and intermediate-term	659	173	832	198,020	198,852
Agribusiness	–	–	–	18,702	18,702
Rural infrastructure	–	–	–	4,202	4,202
Rural residential real estate	46	–	46	11,261	11,307
Total	$ 3,037	$ 459	$ 3,496	$ 781,700	$ 785,196

December 31, 2023	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 1,256	$ 419	$ 1,675	$ 516,037	$ 517,712
Production and intermediate-term	483	215	698	170,163	170,861
Agribusiness	–	–	–	12,690	12,690
Rural infrastructure	–	–	–	1,785	1,785
Rural residential real estate	–	–	–	10,688	10,688
Total	$ 1,739	$ 634	$ 2,373	$ 711,363	$ 713,736

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

	December 31, 2022				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 671	$ 400	$ 1,071	$ 500,217	$ 501,288
Production and intermediate-term	456	299	755	165,035	165,790
Agribusiness	3,050	–	3,050	10,865	13,915
Rural residential real estate	–	–	–	9,352	9,352
Total	$ 4,177	$ 699	$ 4,876	$ 685,469	$ 690,345

Accruing loans greater than 90 days past due as of December 31, 2024, 2023 and 2022 were $0, $319, and $0, respectively.

The following tables provide the amortized cost for nonaccrual loans with and without a related allowance for credit losses on loans, as well as, interest income recognized on nonaccrual loans during the periods ended December 31, 2024 and 2023:

	December 31, 2024			Interest Income Recognized on Nonaccrual Loans
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Year Ended December 31, 2024
Real estate mortgage	$ –	$ 666	$ 666	$ 66
Production and intermediate-term	89	173	262	26
Rural residential real estate	–	18	18	2
Total	$ 89	$ 857	$ 946	$ 94

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

Prior to the adoption of CECL on January 1, 2023, the following disclosures of impaired loans were required. Within the below table, impaired loans included nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due and the amounts included accrued interest. See previously required disclosures of impaired loans in the following table:

	December 31, 2022			Year Ended December 31, 2022	
Impaired loans:	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	221	221	174	242	5
Rural residential real estate	–	–	–	–	–
Total	$ 223	$ 221	$ 174	$ 244	$ 5
With no related allowance for credit losses:					
Real estate mortgage	$ 1,552	$ 1,820	$ –	$ 1,703	$ 32
Production and intermediate-term	614	667	–	674	12
Rural residential real estate	99	231	–	109	2
Total	$ 2,265	$ 2,718	$ –	$ 2,486	$ 46
Total impaired loans:					
Real estate mortgage	$ 1,554	$ 1,820	$ –	$ 1,705	$ 32
Production and intermediate-term	835	888	174	916	17
Rural residential real estate	99	231	–	109	2
Total	$ 2,488	$ 2,939	$ 174	$ 2,730	$ 51

Additionally, total nonaccruals by loan type, including accrued interest, as of December 31, 2022, are included in the table below:

	Total Nonaccrual
Real estate mortgage	$ 567
Production and intermediate-term	343
Rural residential real estate	99
Total	$ 1,009

A summary of changes in the allowance for credit losses by portfolio segment is as follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Total
Allowance for Credit Losses on Loans:						
Balance at December 31, 2023	$ 1,752	$ 684	$ 43	$ 7	$ 36	$ 2,522
Charge-offs	–	(17)	–	–	–	(17)
Recoveries	–	1	–	–	–	1
Provision for credit losses on loans	(351)	(77)	5	4	(7)	(426)
Balance at December 31, 2024	$ 1,401	$ 591	$ 48	$ 11	$ 29	$ 2,080
Allowance for Unfunded Commitments:						
Balance at December 31, 2023	$ –	$ 61	$ 2	$ –	$ –	$ 63
Provision for unfunded commitments	–	1	–	2	–	3
Balance at December 31, 2024	$ –	$ 62	$ 2	$ 2	$ –	$ 66
Total allowance for credit losses	$ 1,401	$ 653	$ 50	$ 13	$ 29	$ 2,146
Allowance for Credit Losses on Loans:						
Balance at December 31, 2022	$ 3,668	$ 678	$ 43	$ –	$ 28	$ 4,417
Cumulative effect of a change in accounting principle	(2,429)	(134)	(21)	–	(1)	(2,585)
Balance at January 1, 2023	$ 1,239	$ 544	$ 22	$ –	$ 27	$ 1,832
Charge-offs	(17)	(45)	–	–	–	(62)
Recoveries	–	1	–	–	–	1
Provision for credit losses on loans	530	184	21	7	9	751
Balance at December 31, 2023	$ 1,752	$ 684	$ 43	$ 7	$ 36	$ 2,522
Allowance for Unfunded Commitments:						
Balance at December 31, 2022	$ –	$ –	$ –	$ –	$ –	$ –
Cumulative effect of a change in accounting principle	–	43	1	–	–	44
Balance at January 1, 2023	$ –	$ 43	$ 1	$ –	$ –	$ 44
Provision for unfunded commitments	–	18	1	–	–	19
Balance at December 31, 2023	$ –	$ 61	$ 2	$ –	$ –	$ 63
Total allowance for credit losses	$ 1,752	$ 745	$ 45	$ 7	$ 36	$ 2,585

Prior to the adoption of CECL on January 1, 2023, the allowance for loan losses was based on probable and estimable losses incurred in the loan portfolio. A summary of changes in the allowance for loan losses and period-end loans including accrued interest is as follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Residential Real Estate	Total
Activity related to the allowance for loan losses:					
Balance at December 31, 2021	$ 3,672	$ 748	$ 30	$ 26	$ 4,476
Charge-offs	–	(64)	–	–	(64)
Recoveries	–	5	–	–	5
Provision for loan losses	(4)	(11)	13	2	–
Balance at December 31, 2022	$ 3,668	$ 678	$ 43	$ 28	$ 4,417
Allowance on loans evaluated for impairment:					
Individually	$ –	$ 174	$ –	$ –	$ 174
Collectively	3,668	504	43	28	4,243
Balance at December 31, 2022	$ 3,668	$ 678	$ 43	$ 28	$ 4,417
Recorded investment in loans evaluated for impairment:					
Individually	$ 1,554	$ 835	$ –	$ 99	$ 2,488
Collectively	499,734	164,955	13,915	9,253	687,857
Balance at December 31, 2022	$ 501,288	$ 165,790	$ 13,915	$ 9,352	$ 690,345

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $69,504, $76,491, and $80,186 at December 31, 2024, 2023, and 2022, respectively. Fees paid for such guarantee commitments totaled $30, $56, and $71 for 2024, 2023, and 2022, respectively. These amounts are classified as noninterest expense.

The Association had no loans held for sale at December 31, 2024, 2023, and 2022.

Loan Modifications to Borrowers Experiencing Financial Difficulty

Modified loans to borrowers experiencing financial difficulty and activity on these loans were not material during the year ended December 31, 2024 and 2023. There were no material commitments to lend to borrowers experiencing financial difficulty whose loans have been modified at December 31, 2024 and 2023. There were no modifications to distressed borrowers that occurred during the previous twelve months and for which there was a subsequent payment default during the period.

Troubled Debt Restructurings

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

The following table presents additional information regarding troubled debt restructurings that occurred during the period:

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

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

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period 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.

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

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

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as required by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $12,190 at December 31, 2024. In addition, the Bank had a reciprocal investment in the Association of $250 at December 31, 2024. The Association's resulting net investment in the Bank was $11,940 for 2024, $11,683 for 2023 and $8,611 for 2022. The Association owned 2.12 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2024 net of any reciprocal investment. As of that date, the Bank's assets totaled $47.0 billion and shareholders' equity totaled $1.7 billion. The Bank's earnings were $283 million for 2024. In addition, the Association had investments of $224 related to other Farm Credit institutions at December 31, 2024.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2024	2023	2022
Land	$ 1,523	$ 736	$ 736
Buildings and improvements	5,243	4,564	4,165
Furniture and equipment	1,462	1,424	1,701
	8,228	6,724	6,602
Less: accumulated depreciation	2,626	2,460	2,263
Total	$ 5,602	$ 4,264	$ 4,339

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, 2024, the Association's notes payable were within the specified limitations.

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

	December 31, 2024	2023	2022
Line of credit	$ 717,000	$ 663,000	$ 700,000
Outstanding principal under the line of credit	653,497	588,371	565,072
Interest rate	3.59%	3.37%	2.64%

Note 7 — Members' Equity

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

A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in common stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to two percent of the loan amount or $1 thousand, whichever is less. The Association bylaws permit the Board of Directors, at their discretion, to establish an investment range between a minimum of two percent of the loan amount or $1 thousand, whichever is less, and a maximum not to exceed ten percent of the loan amount. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

   The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

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

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

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

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

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to 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 credit losses on loans 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, 2024	2023	2022
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	18.35%	19.33%	18.92%
Tier 1 Capital	6.0%	2.5%	8.5%	18.35%	19.33%	18.92%
Total Capital	8.0%	2.5%	10.5%	18.69%	19.71%	19.61%
Permanent Capital	7.0%	0.0%	7.0%	18.85%	19.52%	19.06%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	17.41%	18.12%	17.44%
URE and UREE Leverage	1.5%	0.0%	1.5%	16.83%	17.51%	16.82%

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

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

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

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

The Association had the following shares outstanding at December 31, 2024:

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
B Common/Nonvoting	No	218	$ 1
C Common/Voting	No	740,662	3,704
A Common Issued to Bank/Nonvoting	No	50,065	250
C Participation Certificates/Nonvoting	No	30,275	151
Total Capital Stock and Participation Certificates		821,220	$ 4,106

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

Retained Earnings

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

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

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

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

At December 31, 2024, allocated members' equity consisted of $3,176 nonqualified allocated surplus and $107,144 of nonqualified retained surplus.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to Patrons, on a patronage basis, all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patrons are defined as Members, Equity holders, and other customers, borrowers and financial institutions with which the Association shall conduct business as identified by the Board in the obligation resolution. Patronage distributions are based on the proportion of the Patron's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

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

Transfer

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

Impairment

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

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

Liquidation

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

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

Note 8 — Fair Value Measurement

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

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

	December 31, 2024			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ –	$ –	$ –	$ –
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ 3	$ 3
Other property owned	$ –	$ –	$ –	$ –

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

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

**Prior to adoption of CECL on January 1, 2023, the fair value of impaired loans included accruing restructured loans and loans past due 90 days and accruing.*

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.

Nonaccrual loans
Fair values of nonaccrual 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, and are therefore classified as Level 3.

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 $675 for 2024, $653 for 2023, and $748 for 2022. At December 31, 2024, 2023, and 2022, the total liability balance for the IAR Plan presented in the District Combined Balance Sheets was $6,251, $7,993, and $7,335, respectively. The IAR Plan was 88.67 percent, 86.62 percent, and 88.52 percent funded to the projected benefit obligation as of December 31, 2024, 2023, and 2022, 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 $110 for 2024, $95 for 2023, and $82 for 2022. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $182,643, $160,980, and $167,895 at December 31, 2024, 2023, and 2022, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. This 401(k) plan requires the Association to match 100 percent of employee optional contributions up to a maximum employee contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $340, $326, and $326 for the years ended December 31, 2024, 2023, and 2022, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2008.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2024 amounted to $7,703. During 2024, $6,726 of new loans were made and repayments totaled $6,190. In addition, net loans of $322 were newly classified as related party loans. In the opinion of management, none of these loans outstanding at December 31, 2024 involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management’s credit evaluation of the borrower. At December 31, 2024, $87,361 of commitments to extend credit and $67 of commercial letters of credit were outstanding. A reserve for unfunded commitments of $66 was included in Other Liabilities in the Consolidated Balance Sheets at December 31, 2024.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2024	2023	2022
Current:			
Federal	$ 20	$ 25	$ (5)
State	5	6	3
	$ 25	$ 31	$ (2)
Deferred:			
Federal	–	–	–
State	–	–	–
Total provision (benefit) for income taxes	$ 25	$ 31	$ (2)

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,		
	2024	2023	2022
Federal tax at statutory rate	$ 3,226	$ 2,883	$ 3,657
State tax, net	4	6	–
Patronage distributions	(1,141)	(1,048)	(931)
Tax-exempt FLCA earnings	(2,027)	(1,820)	(2,546)
Change in deferred tax asset valuation allowance	(48)	16	(212)
Deferred tax rate change		–	–
Other	11	(6)	30
Provision (benefit) for income taxes	$ 25	$ 31	$ (2)

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

	December 31,		
	2024	2023	2022
Deferred income tax assets:			
Allowance for loan losses	$ 137	$ 165	$ 314
Annual leave	74	75	75
Nonaccrual loan interest	76	86	93
Pensions and other postretirement benefits	–	–	–
Other	–	–	–
Gross deferred tax assets	287	326	482
Less: valuation allowance	(73)	(122)	(284)
Gross deferred tax assets, net of valuation allowance	214	204	198
Deferred income tax liabilities:			
Pensions and other postretirement benefits		–	–
Special Patronage	(186)	(185)	–
Depreciation	(24)	(19)	(12)
Other	(4)	–	(186)
Gross deferred tax liability	(214)	(204)	(198)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2024, deferred income taxes have not been provided by the Association on approximately $12 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 $73, $122 and $284 as of December 31, 2024, 2023 and 2022, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2024 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 2021 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2024				
	First	Second	Third	Fourth	Total
Net interest income	$ 5,173	$ 5,174	$ 5,282	$ 5,431	$ 21,060
Provision for (reversal of) allowance for credit losses	4	(11)	7	(423)	(423)
Noninterest income (expense), net	(1,396)	(1,216)	(1,655)	(1,880)	(6,147)
Net income	$ 3,773	$ 3,969	$ 3,620	$ 3,974	$ 15,336

	2023				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,612	$ 4,668	$ 4,629	$ 4,581	$ 18,490
Provision for (reversal of) allowance for credit losses	505	259	11	(5)	770
Noninterest income (expense), net	(1,117)	(784)	(915)	(1,206)	(4,022)
Net income	$ 2,990	$ 3,625	$ 3,703	$ 3,380	$ 13,698

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

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 11, 2025, which was the date the financial statements were issued.