River Valley AgCredit

2023

RIVER VALLEY AGCREDIT ANNUAL REPORT

RIVER VALLEY AGCREDIT, ACA

2023 ANNUAL REPORT

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Management

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

Board of Directors

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

Message from the President

I am excited to report on the 2023 results for River Valley AgCredit (RVAC). Interest rates continued to climb throughout 2023 and our lenders had to scratch and claw for every loan they could. They made over $126 million of new loan volume, which, is remarkable considering market conditions. For 2024 there are some predictions of a slight decrease in interest rates, and if those materialize, we will begin repricing your loan into a lower rate and going on a marketing blitz to refinance any loan we can to move more business to our association. The cooperative model of RVAC is the best around, with our successes truly passed to you through our patronage program. No bank does that.

2023 brought a challenge with a completely new loan system. The new loan system was designed to replace a loan system that had been in place since the 1980s. I was expecting some transition issues, however, it ended up being a longer transition than I anticipated. The new system, once fully functional, will lead us into being able to better serve the customer through efficiencies gained and a faster loan process from application to close.

Year over year the Association's net accruing volume grew to $604.7 million with total assets of $641.6 million. RVAC ended with our highest volume ever (for the second year in a row), growing 4.96% over 2022. This growth will position us for strong earnings in 2024. We started out the year dry and then suddenly received a summer's worth of rain in a two-week period. This resulted in an average crop for most producers. Last year we had drought conditions that set the crop back and this year was a mixture of excellent yields in one field and poor yields in the other. Regardless, our farmers were able to pay their debts and the portfolio did not suffer from the weather conditions. Credit quality decreased to 95.31% acceptable, from 96.19% a year ago. Adversely classified volume decreased to 2.78% of our portfolio compared to 3.10% a year ago, which is a good ratio to improve.

Net earnings were $9.266 million, which was over budget by $1.38 million. We received a very small special patronage from AgFirst this year, for which I was prepared. Not counting the special patronage, our 2023 net income was among our highest ever. Our excellent 2023 net income will once again result in another generous patronage refund in 2024. Return on assets (ROA) at year-end was 1.52%, which was well above our minimum standard of 1.0% set in our general financing agreement with AgFirst and above our budget of 1.36%. Year-end permanent capital finished at 19.02%, down slightly from 2022 due to volume growth and increased investment in AgFirst.

As is standard for all financial institutions, RVAC was audited several times in 2023. Our audit season runs throughout the entire summer. 2023 presented a blend of remote and on-site audits and we were pleased to be able to pass all audits will no material issues.

Thank you for allowing me to serve as your CEO once again in 2023. As always, my door is open to all stockholders. Please stop by or call anytime. May God bless you and your operations in 2024.

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

March 7, 2024

Report of Management

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

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

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

The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition and results of operation of the Association. The undersigned certify that we have reviewed the 2023 Annual Report of River Valley AgCredit, ACA that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

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

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

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

Beth Barkley
Chief Financial Officer
of River Valley AgCredit, ACA

March 7, 2024

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2023	2022	2021	2020	2019
Balance Sheet Data					
Cash	**$ 618**	$ 360	$ 1,969	$ 396	$ 853
Loans	**609,156**	582,422	549,712	559,547	531,362
Allowance for loan losses	**(1,713)**	(6,901)	(6,926)	(6,993)	(6,292)
Net loans	**607,443**	575,521	542,786	552,554	525,070
Equity investments in other Farm Credit institutions	**9,755**	7,249	5,379	5,945	6,487
Other property owned	**1,295**	—	—	31	313
Other assets	**22,502**	17,935	21,017	23,030	20,189
Total assets	**$ 641,613**	$ 601,065	$ 571,151	$ 581,956	$ 552,912
Notes payable to AgFirst Farm Credit Bank*	**$ 494,821**	$ 465,253	$ 443,283	$ 462,996	$ 437,014
Accrued interest payable and other liabilities with maturities of less than one year	**20,788**	19,217	18,674	15,053	19,114
Total liabilities	**515,609**	484,470	461,957	478,049	456,128
Capital stock and participation certificates	**4,905**	4,881	4,831	4,726	4,559
Additional paid-in-capital	**15,817**	15,817	15,817	15,817	15,817
Retained earnings					
Allocated	**60,887**	57,633	49,474	46,708	41,930
Unallocated	**44,395**	38,264	39,072	36,656	34,478
Total members' equity	**126,004**	116,595	109,194	103,907	96,784
Total liabilities and members' equity	**$ 641,613**	$ 601,065	$ 571,151	$ 581,956	$ 552,912
Statement of Income Data					
Net interest income	**$ 17,623**	$ 15,435	$ 14,849	$ 14,812	$ 14,897
Provision for (reversal of) allowance for credit losses	**392**	(81)	(75)	670	(539)
Noninterest income (expense), net	**(7,965)**	(4,709)	(35)	(850)	(3,292)
Net income	**$ 9,266**	$ 10,807	$ 14,889	$ 13,292	$ 12,144
Key Financial Ratios					
Rate of return on average:					
Total assets	**1.52%**	1.93%	2.66%	2.38%	2.25%
Total members' equity	**7.37%**	9.55%	13.84%	13.32%	12.01%
Net interest income as a percentage of average earning assets	**3.02%**	2.82%	2.72%	2.72%	2.85%
Net (chargeoffs) recoveries to average loans	**(0.128)%**	0.010%	0.001%	0.006%	0.018%
Total members' equity to total assets	**19.64%**	19.40%	19.12%	17.85%	17.50%
Debt to members' equity (:1)	**4.09**	4.16	4.23	4.60	4.71
Allowance for loan losses to loans	**0.28%**	1.18%	1.26%	1.25%	1.18%
Permanent capital ratio	**19.02%**	19.13%	18.97%	18.15%	20.27%
Common equity tier 1 capital ratio	**18.48%**	18.40%	18.18%	17.40%	18.54%
Tier 1 capital ratio	**18.48%**	18.40%	18.18%	17.40%	18.54%
Total regulatory capital ratio	**19.12%**	19.82%	19.71%	18.94%	20.07%
Tier 1 leverage ratio**	**18.61%**	18.53%	17.42%	16.00%	16.47%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**18.31%**	18.19%	17.18%	15.78%	16.18%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 4,256**	$ 3,147	$ 5,666	$ 3,977	$ 10,379
Nonqualified retained earnings	**3,431**	6,338	5,252	6,544	952

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

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

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

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

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Western Kentucky and Southeast Tennessee. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.rivervalleyagcredit.com***, or by calling 1-270-554-2912, extension 2020, or writing Beth Barkley, River Valley AgCredit, ACA, 2731 Olivet Church Rd., Paducah, KY 42001. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

The USDA is forecasting farm sector solvency ratios to improve in 2023 to 14.6 percent for the debt-to-equity ratio and 12.7 percent for the debt-to-asset ratio, which are well below the peak of 28.5 percent and 22.2 percent in 1985.

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

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

The following table sets forth the commodity prices per bushel for crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2020 to December 31, 2023:

Commodity	12/31/23	12/31/22	12/31/21	12/31/20
Hogs	$ 53.30	$ 62.50	$ 56.50	$ 49.10
Milk	$ 20.60	$ 24.50	$ 21.70	$ 18.30
Broilers	$ 0.74	$ 0.73	$ 0.74	$ 0.44
Turkeys	$ 0.47	$ 1.22	$ 0.84	$ 0.72
Corn	$ 4.80	$ 6.58	$ 5.47	$ 3.97
Soybeans	$ 13.10	$ 14.40	$ 12.50	$ 10.60
Wheat	$ 6.79	$ 8.97	$ 8.59	$ 5.46
Beef Cattle	$ 172.00	$ 154.00	$ 137.00	$ 108.00

Geographic and commodity diversification across the District coupled with existing government safety net programs, ad hoc support programs and additional government disaster aid payment for many borrowers help to mitigate the impact of challenging agricultural conditions. The District's financial performance and credit quality are expected to remain sound overall due to strong capital levels and favorable credit quality position at the end of 2023. Additionally, while the District benefits overall from diversification, individual District entities may have higher geographic, commodity, and borrower concentrations which may accentuate the negative impact on those entities' financial performance and credit quality. Non-farm income support for many borrowers also helps to mitigate the impact of periods of less favorable agricultural conditions. However, agricultural borrowers who are more reliant on non-farm income sources may be more adversely impacted by a weakened general economy.

LIBOR TRANSITION

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

US dollar LIBOR settings (including respect to overnight, one, three, six, and twelve month tenors of US dollar LIBOR) were discontinued or declared non-representative immediately after September 30, 2023. Therefore, as of December 31, 2023, the Association no longer had exposure to LIBOR based loans.

CRITICAL ACCOUNTING POLICIES

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

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

  The ACL comprises:

  - the allowance for loan losses which covers the Association's loan portfolio and is presented separately on the Balance Sheets,
  - the allowance 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.

  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 Bank'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. Management 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, certain investment securities and 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

Unemployment conditions in both the Purchase area of Kentucky and the counties served in Southeast Tennessee increased slightly from a year ago. Unemployment in the Purchase area is approximately 3.86% as compared to 3.54% in 2022. Unemployment in the counties served in Southeast Tennessee is approximately 3.21% as compared to 3.10% over the same period.

The Federal Reserve continues to forecast continued economic growth, but is also battling inflation. It is uncertain what the Federal Reserve will do with interest rates in 2024.

Grain farmers were profitable in 2023, despite the wild swings in weather conditions. At current grain prices and average yields, they should meet obligations in 2024, however, overall profitability is expected to decrease. Indications are for slightly lower input costs year over year which will impact profitability, but those lower inputs will also come with lower grain prices.. Livestock producers were profitable in 2023. Poultry integrators improved their financial position during 2023 due to relatively high prices for their products. Avian influenza will be a concern again in 2024, especially during the spring migration period. Poultry growers should see normalized placement of birds as integrators seek to expand production due to the increased demand for chicken. Dairy farmers were also profitable during the year but will have less opportunities for improvement in profitability with the forecast of lower milk prices.

Land prices are expected to increase in both regions, mainly due to the demand for agricultural land. Additionally, the demand for small rural tracts from people moving from the city will increase prices for small tracts, in both Kentucky and Tennessee. Land rents are expected to be similar to 2023.

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

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

LOAN PORTFOLIO

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

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

	December 31,					
Loan Type	**2023**		**2022**		**2021**	
Production and intermediate-term	$ 184,901	30.35%	$ 182,922	31.41%	$ 188,057	34.21%
Real estate mortgage	334,195	54.86	314,661	54.03	298,877	54.37
Processing and marketing	22,148	3.64	25,174	4.32	4,189	0.76
Other (including Mission Related)	12,055	1.97	17,379	2.98	23,905	4.35
Rural residential real estate	25,250	4.15	21,273	3.65	20,142	3.67
Loans to Cooperatives	1,385	0.23	630	0.11	679	0.12
Farm-related business	13,791	2.26	13,297	2.28	13,863	2.52
Communication	9,791	1.61	6,317	1.09	–	–
Power and water/waste disposal	5,640	0.93	464	0.08	–	–
International	–	0.00	305	0.05	–	–
Total	$ 609,156	100.00%	$ 582,422	100.00%	$ 549,712	100.00%

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

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

	December 31,		
Branch	**2023**	**2022**	**2021**
Bardwell, KY	3.84%	4.21%	4.44%
Clinton, KY	10.71	8.39	9.00
Hickman, KY	3.92	4.82	4.86
Kevil, KY	5.44	5.42	4.67
Murray, KY	10.78	11.57	11.63
Mayfield, KY	12.73	12.98	12.97
Special Assets Unit-West	0.39	0.53	0.55
Capital Markets-Joint	8.80	8.30	6.26
Cleveland, TN	10.41	8.76	8.68
Pikeville, TN	4.34	4.58	5.11
Athens, TN	11.08	12.38	12.04
Dayton, TN	5.86	5.71	5.87
Loudon, TN	2.80	3.26	3.52
Digital Loans	0.35	0.18	0.00
Special Assets Unit-East	0.29	0.54	0.77
Farm Credit Express	0.52	0.71	1.07
Country Mortgage Dept.*	7.74	7.66	8.56
	100.00%	100.00%	100.00%

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

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

The major commodities in the Association loan portfolio are shown below. The predominant commodities are poultry, corn, cattle, field crops, and grain which constitute 71 percent of the entire portfolio.

	December 31,					
Commodity Group *	**2023**		**2022**		**2021**	
Cattle	$ 76,896	13%	$ 83,197	14%	$ 76,963	14%
Corn	101,102	17	103,494	18	95,260	17
Cotton	11	-	106	–	296	–
Dairy	11,402	2	11,977	2	13,067	2
Field Crops	63,362	10	66,707	12	69,479	13
Forestry	18,520	3	18,446	3	22,573	4
Grain	40,676	7	43,407	8	44,335	8
Nursery/Greenhouse	12,337	2	12,019	2	6,298	1
Other	38,790	6	33,909	6	26,462	5
Other Real Estate	26,928	4	24,273	4	21,166	4
Poultry	148,800	24	129,161	22	139,257	25
Processing	17,433	3	14,357	2	1,649	–
Rural Home Loan	27,297	5	22,639	4	20,792	4
Swine	6,378	1	7,042	1	6,842	2
Utilities	14,488	2	6,879	1	106	–
Ethanol	296	-	153	–	158	–
Tobacco	19	-	40	–	15	–
Tree Fruits and Nuts	4,421	1	4,616	1	4,994	1
Total	$ 609,156	100%	$ 582,422	100%	$ 549,712	100%

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

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of corn, grain, and poultry producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Demand for chicken and beef, prices of field grains, and international trade are some of the factors affecting the price of these commodities. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

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

During 2023, the Association continued activity in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which is intended to strengthen our capital position.

	December 31,		
Loan Participations:	**2023**	**2022**	**2021**
Participations Purchased – FCS Institutions	$ 41,822	$ 31,298	$ 10,814
Participations Purchased – Non-FCS Institutions	11,918	17,075	23,100
Participations Sold	(13,795)	(9,908)	(18,857)
Total	$ 39,945	$ 38,465	$ 15,057

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

The Association sells qualified long-term mortgage loans into the secondary market. For the year ended December 31, 2023, the Association originated loans for resale totaling $8,834 which were sold into the secondary market as compared to $28,927 for December 31, 2022 and $22,783 for December 31, 2021.

The Association purchased portions of loans that are guaranteed by the United States Department of Agriculture, Farm Service Agency, and the Small Business Administration. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. At December 31, 2023, the balance of these loans, including the unamortized premium, was $12,055, compared to $17,444 at December 31, 2022 and $23,905 at December 31, 2021. These loans are included as participations purchased stated above.

INVESTMENT SECURITIES

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

CREDIT RISK MANAGEMENT

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

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

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

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

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

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

Credit Quality	2023	2022	2021
Acceptable & OAEM	98.08%	96.90%	97.48%
Substandard/doubt/loss	1.92%	3.10%	2.52%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

	December 31,		
High-risk Assets	**2023**	**2022**	**2021**
Nonaccrual loans	$ 4,374	$ 6,229	$ 7,270
Restructured loans	–	3,546	4,011
Accruing loans 90 days past due	–	1,186	458
Total high-risk loans	4,374	10,961	11,739
Other property owned	1,295	–	–
Total high-risk assets	$ 5,669	$ 10,961	$ 11,739
Ratios			
Nonaccrual loans to total loans	0.72%	1.07%	1.32%
High-risk assets to total assets	0.88%	1.82%	2.06%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $1,855 or 29.78% in 2023. This decrease primarily resulted from normal nonaccrual collections. Of the $4,374 in nonaccrual volume at December 31, 2023, $1,478 or 33.79%, compared to 14.19% and 9.68% at December 31, 2022 and 2021, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one, or a combination of, principal forgiveness, interest rate reduction, or a term or payment extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions. Modified loans to borrowers experiencing financial difficulty and activity on these loans were not material during the year ended December 31, 2023.

Allowance for Credit Losses

Effecitve January 1, 2023, the Association adopted the CECL accounting guidance as described in Note 2, *Summary of Significant Accounting Policies*, which represents the estimated current expected credit losses over the remaining contractual life of financial assets. Prior to that date, the allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

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

	Year Ended December 31,		
Allowance for Loan Losses Activity:	**2023**	**2022**	**2021**
Balance at beginning of year	$ 6,901	$ 6,926	$ 6,993
CECL Day 1 Adjustment	(4701)	–	–
Balance at January 1,	2,200	6,926	6,993
Charge-offs:			
Agribusiness	–	–	–
Production and intermediate-term	(857)	(31)	(195)
Rural Residential Real Estate	–	–	–
Real estate mortgage	(24)	(1)	(3)
Total charge-offs	(881)	(32)	(198)
Recoveries:			
Agribusiness	–	–	–
Production and intermediate-term	101	68	156
Rural Residential Real Estate	–	–	23
Real Estate Mortgage	31	20	27
Total recoveries	132	88	206
Net (charge-offs) recoveries	(749)	56	8
Provision for (recovery of) loan losses	262	(81)	(75)
Balance at end of year	$ 1,713	$ 6,901	$ 6,926
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.128)%	0.010%	0.001%

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

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

	December 31,		
Allowance for Loan Losses by Type	**2023**	**2022**	**2021**
Real estate mortgage	$ 637	$ 2,828	$ 2,876
Production and intermediate-term	599	3,448	3,665
Agribusiness	416	510	245
Communication	11	12	–
Rural residential real estate	49	101	140
Other	1	2	–
Total Allowance	$ 1,713	$ 6,901	$ 6,926

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

Allowance for Loan Losses	December 31,		
as a Percentage of:	**2023**	**2022**	**2021**
Total loans	0.28%	1.18%	1.26%
Nonperforming loans	39.16%	105.88%	59.00%
Nonaccrual loans	39.16%	110.79%	95.27%

Beginning with our 2023 adoption of CECL, the Association now carries an allowance for unfuded commitments. The balance as of December 31, 2023 was $259, and it is included with other liabilities on the balance sheet.

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $17,623, $15,435 and $14,849 in 2023, 2022 and 2021, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
12/31/23 - 12/31/22				
Interest income	$ 1,843	$ 6,799	$ (102)	$ 8,540
Interest expense	900	5,452	–	6,352
Change in net interest income	$ 943	$ 1,347	$ (102)	$ 2,188
12/31/22 - 12/31/21				
Interest income	$ 75	$ 2,415	$ 1	$ 2,490
Interest expense	(94)	1,998	–	1,904
Change in net interest income	$ 169	$ 417	$ 1	$ 586

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

Noninterest Income

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2023**	**2022**	**2021**	**2023/ 2022**	**2022/ 2021**
Loan fees	$ 695	$ 702	$ 1,139	(1.00)%	(38.37)%
Fees for financially related services	115	215	271	(46.51)%	(20.66)%
Patronage refund from other Farm Credit Institutions	3,605	5,775	9,404	(37.58)%	(38.59)%
Gains (losses) on sales of rural home loans	35	370	459	(90.54)%	(19.39)%
Gains (losses) on sales of premises and equipment, net	28	(174)	(26)	(116.09)%	569.23%
Gains (losses) on other transactions	(93)	–	–	(100.00)%	–%
Other noninterest income	2	8	1	(75.00)%	7.00%
Total noninterest income	$ 4,387	$ 6,896	$ 11,248	(36.38)%	(38.69)%

Patronage refunds from other Farm Credit Institutions fluctuated due to special distributions from AgFirst Farm Credit Bank. AgFirst Board of Directors made a decision to declare a special distribution to the association based on the Bank's income and capital levels in 2023, 2022, and 2021. The amount of special distribution received was $81, $2,444, and $6,053 respectively. In 2022, this was made in the form of allocated surplus to be revolved at a later date while 2023 and 2021 distributions were in the form of cash.

Noninterest income decreased $2,509 or 36.38 percent for December 31, 2023 as compared to the same period of 2022 which increased $4,352 or 38.69 percent compared to December 31, 2021. The primary reason for the decrease in total noninterest income in 2023 is due to a decrease in the special patronage distribution from AgFirst as well as a decrease in gains on sales of rural home loans. The primary reason for the decrease in total noninterest income for the period ended December 31, 2022 was attributed to loan fees received from the PPP program and the special patronage distribution.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2023	2022	2021	Percentage Increase/(Decrease) 2023/2022	2022/2021
Salaries and employee benefits	$ 8,360	$ 7,651	$ 7,560	9.27%	1.20%
Occupancy and equipment	569	564	529	0.89%	6.62%
Insurance Fund premiums	747	740	583	0.95%	26.93%
(Gains) losses on other property owned	3	8	14	(62.50)%	(42.86)%
Other operating expenses	2,617	2,656	2,551	(1.47)%	4.12%
Total noninterest expense	$ 12,296	$ 11,619	$ 11,237	5.83%	3.40%

Salaries and employee benefits increased in 2023 and 2022 due to a normal merit increases and the accrual of a corporate incentive for all employees based on association performance.

Insurance Fund premiums increased 0.95 percent for the twelve months ended December 31, 2023, compared to the same period of 2022. The FCSIC set premiums at 18 basis points in 2023. This premium was applied to adjusted insured debt outstanding reduced by guaranteed investments. Premiums were 20 and 16 basis points in 2022 and 2021, respectively. In addition, for 2023, 2022 and 2021, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments.

Noninterest expense increased $677 or 5.83 percent for December 31, 2023, as compared to the same period of 2022 which increased $382 or 3.40 percent compared to December 31, 2021. The primary reason for the increase in total noninterest expense in 2023 was due to increases in salaries and employee benefits. The primary reason for the increase in total noninterest expense in 2022 is attributable to an increase in insurance fund premiums.

Income Taxes

The Association recorded a provision for income taxes of $56 for the year ended December 31, 2023, as compared to a benefit of $14 for 2022 and a provision of $46 for 2021. Refer to Note 2, *Summary of Significant Accounting Policies,* and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/23	12/31/22	12/31/21
Return on average assets	1.52%	1.93%	2.66%
Return on average members' equity	7.37%	9.55%	13.84%
Net interest income as a percentage of average earning assets	3.02%	2.82%	2.72%
Net (charge-offs) recoveries to average loans	(0.128)%	0.010%	0.001%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2023, were $494,821 as compared to $465,253 at December 31, 2022. The increase of 6.36 percent is attributable to an increase in loan volume. The average volume of outstanding notes payable to the Bank was $469,798 and $433,681 for the years ended December 31, 2023 and 2022, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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

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

Funds Management

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

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

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

Relationship with the Bank

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

The Bank's ability to access capital of the Association is discussed in Note 4, *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 Sources" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this Annual Report.

CAPITAL RESOURCES

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

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

Total members' equity at December 31, 2023, increased 8.07 percent to $126,004 from the December 31, 2022, total of $116,595. At December 31, 2022, total members' equity increased 6.78 percent from the December 31, 2021 total of $109,194. The increase was primarily attributed to association earnings.

Total capital stock and participation certificates were $4,905 on December 31, 2023, compared to $4,881 on December 31, 2022 and $4,831 on December 31, 2021.

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

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of 2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	2.50%	7.00%	18.48%	18.40%	18.18%
Tier 1 Capital Ratio	6.0%	2.50%	8.50%	18.48%	18.40%	18.18%
Total Capital Ratio	8.0%	2.50%	10.50%	19.12%	19.82%	19.71%
Permanent Capital Ratio	7.0%	–%	7.00%	19.02%	19.13%	18.97%
Non-risk-adjusted:						
Tier 1 Leverage Ratio	4.0%	1.00%	5.00%	18.61%	18.53%	17.42%
UREE Leverage Ratio	1.5%	–%	1.50%	18.31%	18.19%	17.18%

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

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

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $7,687 in 2023, $9,485 in 2022, and $10,918 in 2021.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. As a result, 2023 goals were exceeded for Beginning, Small and Young Farmers.

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

	As of December 31, 2023 Number of Loans	Amount of Loans
		(dollars in thousands)
Young	661	$99,986
Beginning	1,291	$186,134
Small	2,365	$207,152

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

The 2017 USDA Ag census data is the latest data available. It has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 10,609 reported farmers of which by definition 1,511 or 14.24 percent were Young, 4,931 or 46.48 percent were Beginning and 9,860 or 92.94 percent were Small. Comparatively, as of December 2022, the demographics of the Association's agricultural portfolio contained 2,441 farmers, of which by definition 361 or 15 percent were Young, 762 or 31 percent were Beginning and 1,515 or 62 percent were Small.

ACA's goals are to maintain our YBS percentages at the 2023 level, but in no case slip below the goals set in the Business Plan of 5% for Young, 10% for Beginning and 20% for Small farmers. The differences in the census data and the Association data are primarily in the definition differences in Young, Beginning and Small farmers. The Association assigns Young, Beginning and Small based on the age, years of experience and income of the youngest individual involved in the operation. Our numbers also include farmers that do not own farmland but rent all of their land.

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

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

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

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

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

REGULATORY MATTERS

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

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Description of Property

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

Location	Description	Form of Ownership
2731 Olivet Church Rd Paducah, KY	Administrative	Owned
196 US Hwy 51 North Bardwell, KY	Branch	Leased*
102 N Washington St. Clinton, KY	Branch	Owned
1514 Union City Hwy. Hickman, KY	Branch	Owned
12350 U.S. Highway 60 West Kevil, KY	Branch	Owned
1401 N. 12th St. Murray, KY	Branch	Owned
545 Dick Castleman Bypass Mayfield, KY	Branch	Owned
2620 APD 40 Cleveland, TN	Branch	Owned
600 US 127 Bypass Pikeville, TN	Branch	Owned
1117 S Congress Parkway Athens, TN	Branch	Owned
230 Main Street Dayton, TN	Branch	Owned
2052 Hwy 72 Loudon, TN	Branch	Owned

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

Legal Proceedings

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

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

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

Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years:

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

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2023, 2022 and 2021, is as follows:

Name of Individual or Number in Group	Year	Annual Salary	Bonus	Perq/ Other*	Pension Change	Total
Kyle Yancey	2023	$ 378,854	$ 81,548	$ 3,277	$ 113,265	$ 576,944
Kyle Yancey	2022	$ 366,758	$ –	$ 2,476	$ (312,026)	$ 57,208
Kyle Yancey	2021	$ 350,282	$ –	$ 2,726	$ 35,568	$ 388,576
5	2023	$ 851,260	$ 138,613	$ 14,338	$ 414,876	$ 1419,087
5	2022	$ 757,366	$ 23,207	$ 15,113	$ (566,780)	$ 228,906
6	2021	$ 824,526	$ 28,340	$ 15,113	$ 502,931	$ 1,370,910

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

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

The Association participates in multi-association, District and multi-district sponsored benefit plans. Change in pension value is considered a part of compensation. The following Pension Benefits table reflects number of years credited service, actuarial present value of accumulated benefits, along with any payments made during 2023 for the CEO and senior officers and other highly compensated employees as a group.

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2023
Kyle Yancey	2023	IARP	18	$663,715	$–
5 Officers, excluding the CEO	2023	IARP	21	$3,213,407	$–

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

In addition to a base salary, senior officers earn additional compensation under an incentive plan which is tied to the overall business performance and the individual's performance appraisal rating. The Association incentive plan is designed to motivate employees to exceed the business plan goals during the fiscal year. These goals typically include return on assets, credit quality, credit administration, loan volume, nonaccrual loan volume, permanent capital and other key ratios. Those covered by the plan include all employees. Also all employees except Administrative staff participate in insurance and lease incentive plans designed to motivate employees to increase insurance sales and leasing fee income to benefit the member as well as the Association. Additional incentive plans available to all employees include member referral incentives designed to encourage employees to promote new business through personal contacts. Bonuses are shown in the year earned, which may be different than the year of payment.

Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request. Disclosure of information on the total compensation paid during 2023 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Directors

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

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2023
David Richesin, ***Chairman***	2008*	2026	$ 18,905
Darren Grogan ***Vice Chairman***	2008	2026	17,020
Annette Bryant	2020	2025	15,270
Aaron Smith, *Outside Dir*	2022	2025	19,770
Aaron Wilson	2009	2025	16,270
Tiffany Myers, *Outside Dir*	2015	2024	20,770
Andrew Falwell	2018	2024	24,520
Don Massengale	2018	2024	21,770
Darrin Holder	2022	2025	22,270
			$ 176,565

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

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

Mr. David Richesin, Chairman, owns and manages a grain operation headquartered in Loudon County, TN. Currently, he serves on the AgFirst Farm Credit Bank Board of Directors and is a director on the AgFirst Farm Credit Council. He also serves as a State Director-at Large on the Tennessee Farm Bureau Board. Mr. Richesin received his BS degree in Agriculture Business from the University of Tennessee.

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

Mrs. Annette Bryant has been an agriculture teacher for over fourteen years. She also owns and operates a cow/calf operation in McMinn County with her husband. They raise market hogs and sheep for their on-site store, Harmony Hill Market, where they sell retail cuts of their beef, pork and lamb. She attended the University of Tennessee at Martin, where she received her BS in Animal Science and Kansas State University where she received her MS in Ruminant Nutrition. Mrs. Bryant serves as an FFA Advisor, a committee member of McMinn Livestock Association and a committee member of McMinn Junior Livestock Association.

Mr. Andrew Falwell co-owns/operates a row crop, dark tobacco, and fruit/vegetable operation in Calloway County, KY Mr. Falwell received his BS degree in Agricultural Business from Murray State University and his Master's degree in Agricultural Economics from Purdue University.

Mr. Darrin Holder is an agronomist/crop protection product manager for WinField United, a Land O'Lakes Company. He is also the owner of a small row crop farm and raises a small acreage of pumpkins and orgamental corn with his wife and children. Mr. Holder received his BS degree in Agriculture Science, as well as his Master's Degree in Agriculture with an emphasis on Agronomy from Murray State University.

Mr. Don Massengale is the owner/operator of a cow/calf operation in Rhea County, TN.. He and his wife, Karen, also own and operate a 2 house commercial breeder poultry operation. Mr. Massengale is President on the Rhea County Fair Board and Vice President for the Rhea County Cattlemen's Association. He also serves as a board member for Rhea County Farm Bureau.

Mrs. Tiffany Myers, *Outside Director,* served as the Audit Committee chair in 2023. She is a licensed Certified Public Accountant for the state of Kentucky and retired Chief Financial Officer for WK&T Telecommunications of Mayfield, KY. She continues to work with WK&T part-time as Special Projects Director. Mrs. Myers received her BS degree in accounting from Murray State University and a

Master of Information Systems from the University of Phoenix. Mrs. Myers serves as a WoodmenLife National Board Director and is a member of the Kentucky Society of CPA's and the American Institute of Certified Public Accountant Organization.

Dr. Aaron Smith, *Outside Director,* was elected by the board and began his term in December of 2022. He is a tenured, Associate Professor in the Department of Agricultural and Resource Economics at the University of Tennessee, Knoxville.Dr. Smith holds a diploma in Agriculture Business with a Major in Finance from Olds College, a Bachelor of Arts in Agribusiness from the University of Lethbridge, a Masters of Science from the University of Arkansas, and earned his PhD from the University of Arkansas.

Mr. Aaron Wilson owns/operates a row crop and beef cattle operation in Ballard County, KY. He serves as Chairman of the Ballard County Soil Conservation Service. Mr. Wilson received his BA degree in Biology from Transylvania University.

Subject to approval by the board, the Association may allow directors honoraria of $750 for attendance at meetings, committee meetings, or special assignments. The Chairman of the Board and all other directors are paid a quarterly retainer fee of $1,000 and $500 respectively. Total compensation paid to directors as a group was $176,565.

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

	Days Served			
Name of Director	**Regular Board Meetings**	**Other Official Activities***	**Committee Assignments**	**Comp. Paid for other Activities***
David Richesin, ***Chairman***	6	12	Audit/Credit/ Governance/ Compensation	$ 10,405
Tiffany Myers, *Outside Dir*	6	18	Audit/Credit/Governance	14,270
Darren Grogan, ***Vice Chairman***	6	13	Audit/Credit/Governance	10,520
Annette Bryant	6	10	Audit/Credit	8,770
Aaron Smith, *Outside Dir*	6	16	Audit/Credit/Compensation	13,270
Aaron Wilson	6	12	Audit/Credit	9,770
Andrew Falwell	6	23	Audit/Credit/ Compensation/Governance	18,020
Don Massengale	6	19	Audit/Credit/Compensation	15,270
Darrin Holder	6	20	Audit/Credit	15,770
				$ 116,065

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

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $30,357 for 2023, $15,417 for 2022 and $1,090 for 2021. The increase in 2023 was due to attending more in-person meetings.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP was the Association's principal auditor in 2023. There were no changes in or material disagreements with our independent registered public accounting firm on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees paid by the Association for services rendered by its independent registered public accounting firm for the year ended December 31, 2023 were as follows:

	2023
Independent Registered Public Accounting Firm	
PricewaterhouseCoopers LLP	
Audit services	110,400
Total	$ 110,400

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

Consolidated Financial Statements

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

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

Borrower Information Regulations

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

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

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

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

Shareholder Investment

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

Report of the Audit Committee

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

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

PriceWaterhouseCoopers LLP (PwC), the Association's auditor for 2023, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from River Valley AgCredit, ACA.

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

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

Tiffany Myers
Chairperson of the Audit Committee

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

March 7, 2024

pwc

Report of Independent Auditors

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

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Other Information

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

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

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 7, 2024

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2023	2022	2021
Assets			
Cash	**$ 618**	$ 360	$ 1,969
Loans	**609,156**	582,422	549,712
Allowance for loan losses	**(1,713)**	(6,901)	(6,926)
Net loans	**607,443**	575,521	542,786
Loans held for sale	**1,890**	—	—
Accrued interest receivable	**9,227**	6,829	5,280
Equity investments in other Farm Credit institutions	**9,755**	7,249	5,379
Premises and equipment, net	**7,545**	7,667	6,016
Other property owned	**1,295**	—	—
Accounts receivable	**3,708**	3,278	9,481
Other assets	**132**	161	240
Total assets	**$ 641,613**	$ 601,065	$ 571,151
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 494,821**	$ 465,253	$ 443,283
Accrued interest payable	**1,769**	1,277	812
Patronage refunds payable	**5,015**	3,950	6,391
Accounts payable	**1,675**	1,505	726
Advanced conditional payments	**5,008**	3,962	4,068
Other liabilities	**7,321**	8,523	6,677
Total liabilities	**515,609**	484,470	461,957
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**4,905**	4,881	4,831
Additional paid-in-capital	**15,817**	15,817	15,817
Retained earnings			
Allocated	**60,887**	57,633	49,474
Unallocated	**44,395**	38,264	39,072
Total members' equity	**126,004**	116,595	109,194
Total liabilities and members' equity	**$ 641,613**	$ 601,065	$ 571,151

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2023	2022	2021
Interest Income			
Loans	**$ 35,466**	$ 26,931	$ 24,433
Other	**12**	7	15
Total interest income	**35,478**	26,938	24,448
Interest Expense	**17,855**	11,503	9,599
Net interest income	**17,623**	15,435	14,849
Provision for (reversal of) allowance for credit losses	**392**	(81)	(75)
Net interest income after provision for (reversal of) allowance for credit losses	**17,231**	15,516	14,924
Noninterest Income			
Loan fees	**695**	702	1,139
Fees for financially related services	**115**	215	271
Patronage refunds from other Farm Credit institutions	**3,605**	5,775	9,404
Gains (losses) on sales of rural home loans, net	**35**	370	459
Gains (losses) on sales of premises and equipment, net	**28**	(174)	(26)
Gains (losses) on other transactions	**(93)**	—	—
Other noninterest income	**2**	8	1
Total noninterest income	**4,387**	6,896	11,248
Noninterest Expense			
Salaries and employee benefits	**8,360**	7,651	7,560
Occupancy and equipment	**569**	564	529
Insurance Fund premiums	**747**	740	583
Purchased services	**571**	494	679
Data processing	**198**	201	225
Other operating expenses	**1,848**	1,961	1,647
(Gains) losses on other property owned, net	**3**	8	14
Total noninterest expense	**12,296**	11,619	11,237
Income before income taxes	**9,322**	10,793	14,935
Provision (benefit) for income taxes	**56**	(14)	46
Net income	**$ 9,266**	$ 10,807	$ 14,889
Other comprehensive income	—	—	—
Comprehensive income	**$ 9,266**	$ 10,807	$ 14,889

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	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2020	$ 4,726	$ 15,817	$ 46,708	$ 36,656	$ 103,907
Comprehensive income				14,889	14,889
Capital stock/participation certificates issued/(retired), net	105				105
Patronage distribution					
Cash				(5,666)	(5,666)
Nonqualified retained earnings			5,252	(5,252)	—
Patronage distribution adjustment			(2,486)	(1,555)	(4,041)
Balance at December 31, 2021	$ 4,831	$ 15,817	$ 49,474	$ 39,072	$ 109,194
Comprehensive income				10,807	10,807
Capital stock/participation certificates issued/(retired), net	50				50
Patronage distribution					
Cash				(3,147)	(3,147)
Nonqualified retained earnings			6,338	(6,338)	—
Patronage distribution adjustment			1,821	(2,130)	(309)
Balance at December 31, 2022	$ 4,881	$ 15,817	$ 57,633	$ 38,264	$ 116,595
Cumulative effect of change in accounting principle				**4,572**	**4,572**
Comprehensive income				**9,266**	**9,266**
Capital stock/participation certificates issued/(retired), net	**24**				**24**
Patronage distribution					
Cash				**(4,256)**	**(4,256)**
Nonqualified retained earnings			**3,431**	**(3,431)**	**—**
Patronage distribution adjustment			**(177)**	**(20)**	**(197)**
Balance at December 31, 2023	**$ 4,905**	**$ 15,817**	**$ 60,887**	**$ 44,395**	**$ 126,004**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2023	2022	2021
Cash flows from operating activities:			
Net income	**$ 9,266**	$ 10,807	$ 14,889
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**418**	390	377
Amortization (accretion) of net deferred loan costs (fees)	**110**	479	667
Amortization (accretion) of yield mark resulting from merger	**(7)**	(6)	(6)
Provision for (reversal of) allowance for credit losses	**392**	(81)	(75)
(Gains) losses on other property owned	**(24)**	—	7
(Gains) losses on sales of premises and equipment, net	**(28)**	174	26
(Gains) losses on sales of rural home loans, net	**(35)**	(370)	(459)
(Gains) losses on other transactions	**93**	—	—
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(8,834)**	(28,927)	(22,783)
Proceeds from sales of loans held for sale, net	**6,819**	29,297	24,571
(Increase) decrease in accrued interest receivable	**(2,398)**	(1,549)	1,612
(Increase) decrease in accounts receivable	**(430)**	6,203	(709)
(Increase) decrease in other assets	**29**	79	39
Increase (decrease) in accrued interest payable	**492**	465	(48)
Increase (decrease) in accounts payable	**170**	779	73
Increase (decrease) in other liabilities	**(1,396)**	1,846	2,322
Total adjustments	**(4,629)**	8,779	5,614
Net cash provided by (used in) operating activities	**4,637**	19,586	20,503
Cash flows from investing activities:			
Net (increase) decrease in loans	**(28,894)**	(33,140)	9,165
(Increase) decrease in equity investments in other Farm Credit institutions	**(2,506)**	(1,870)	566
Purchases of premises and equipment	**(299)**	(2,215)	(735)
Proceeds from sales of premises and equipment	**31**	—	74
Proceeds from sales of other property owned	**24**	—	24
Net cash provided by (used in) investing activities	**(31,644)**	(37,225)	9,094
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**29,581**	21,983	(19,696)
Net increase (decrease) in advanced conditional payments	**1,046**	(106)	(307)
Capital stock and participation certificates issued/(retired), net	**24**	50	105
Patronage refunds and dividends paid	**(3,386)**	(5,897)	(8,126)
Net cash provided by (used in) financing activities	**27,265**	16,030	(28,024)
Net increase (decrease) in cash	**258**	(1,609)	1,573
Cash, beginning of period	**360**	1,969	396
Cash, end of period	**$ 618**	$ 360	$ 1,969
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ 1,295**	$ —	$ —
Estimated cash dividends or patronage distributions declared or payable	**4,256**	3,147	5,666
Cumulative effect of change in accounting principle	**4,572**	—	—
Supplemental information:			
Interest paid	**$ 17,376**	$ 11,051	$ 9,664
Taxes (refunded) paid, net	**45**	29	46

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

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

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

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

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

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

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

	December 31, 2022	CECL Adoption Impact	January 1, 2023
Assets:			
Allowance for loan losses	$ 6,901	$ (4,701)	$ 2,200
Liabilities:			
Allowance for credit losses on unfunded commitments	$ –	$ 129	$ 129
Retained earnings:			
Unallocated retained earnings	$ 38,264	$ 4,572	$ 42,836

A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held $12 in cash in excess of insured amounts.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans
Substantially all employees hired before January 1, 2009 may participate in the Independent Associations Retirement Plan (Plan), which is a defined benefit plan and considered multiemployer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

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

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

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

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

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

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

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

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

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis. Patronage refunds due from the Bank for the years ended December 31, 2023, 2022, and 2021 of $3,605, $3,282, and $9,365 respectively, are reflected in Accounts Receivable on the Consolidated Balance Sheets.

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

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

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

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

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

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

Additional information may be found in Note 8.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Credit Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses.
- Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.

- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31, 2023	December 31, 2022	December 31, 2021
Real estate mortgage	$ 334,195	$ 314,661	$ 298,877
Production and intermediate-term	184,901	182,922	188,057
Agribusiness:			
Loans to cooperatives	1,385	630	679
Processing and marketing	22,148	25,174	4,189
Farm-related business	13,791	13,297	13,863
Rural infrastructure:			
Communication	9,791	6,317	–
Power and water/waste disposal	5,640	464	–
Rural residential real estate	25,250	21,273	20,142
Other:			
International	–	305	–
Other (including Mission Related)	12,055	17,379	23,905
Total loans	$ 609,156	$ 582,422	$ 549,712

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

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

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

	December 31, 2023							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,664	$ 3,885	$ –	$ –	$ –	$ 3,652	$ 1,664	$ 7,537
Production and intermediate-term	5,163	(2)	167	–	–	2,738	5,330	2,736
Agribusiness	17,727	–	1,636	3,272	–	250	19,363	3,522
Rural infrastructure	15,465	–	–	–	–	–	15,465	–
Other	–	–	–	–	11,918	–	11,918	–
Total	$ 40,019	$ 3,883	$ 1,803	$ 3,272	$ 11,918	$ 6,640	$ 53,740	$ 13,795

	December 31, 2022							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,890	$ 4,190	$ –	$ –	$ –	$ 3,750	$ 1,890	$ 7,940
Production and intermediate-term	4,410	(2)	220	–	–	1,970	4,630	1,968
Agribusiness	17,660	–	–	–	–	–	17,660	–
Rural infrastructure	6,813	–	–	–	–	–	6,813	–
Other	305	–	–	–	17,075	–	17,380	–
Total	$ 31,078	$ 4,188	$ 220	$ –	$ 17,075	$ 5,720	$ 48,373	$ 9,908

	December 31, 2021							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 2,614	$ 4,486	$ –	$ –	$ –	$ 3,409	$ 2,614	$ 7,895
Production and intermediate-term	4,006	(2)	284	–	–	2,522	4,290	2,520
Agribusiness	3,910	8,442	–	–	–	–	3,910	8,442
Other	–	–	–	–	23,100	–	23,100	–
Total	$ 10,530	$ 12,926	$ 284	$ –	$ 23,100	$ 5,931	$ 33,914	$ 18,857

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

	December 31,		
	2023	2022*	2021*
Real estate mortgage:			
Acceptable	96.52%	97.26%	93.38%
OAEM	1.63	0.71	4.94
Substandard/doubtful/loss	1.85	2.03	1.68
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	95.31%	93.98%	92.49%
OAEM	3.00	0.96	3.76
Substandard/doubtful/loss	1.69	5.06	3.75
	100.00%	100.00%	100.00%
Agribusiness:			
Acceptable	79.70%	94.49%	85.73%
OAEM	14.31	–	5.29
Substandard/doubtful/loss	5.99	5.51	8.98
	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	97.48%	98.28%	98.54%
OAEM	1.94	0.70	1.04
Substandard/doubtful/loss	0.58	1.02	0.42
	100.00%	100.00%	100.00%
Other:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	95.32%	96.19%	93.29%
OAEM	2.76	0.71	4.19
Substandard/doubtful/loss	1.92	3.10	2.52
	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 $9,227, $6,829, and $5,280 at December 31, 2023, 2022, and 2021, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

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

December 31, 2023	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 2,217	$ 1,446	$ 3,663	$ 330,532	$ 334,195
Production and intermediate-term	420	287	707	184,194	184,901
Agribusiness	88	205	293	37,031	37,324
Rural infrastructure	–	–	–	15,431	15,431
Rural residential real estate	324	109	433	24,817	25,250
Other	718	–	718	11,337	12,055
Total	$ 3,767	$ 2,047	$ 5,814	$ 603,342	$ 609,156

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	$ 791	$ 1,074	$ 1,865	$ 316,064	$ 317,929
Production and intermediate-term	311	3,091	3,402	182,532	185,934
Agribusiness	–	982	982	38,297	39,279
Rural infrastructure	–	–	–	6,792	6,792
Rural residential real estate	169	185	354	20,992	21,346
Other	898	1,186	2,084	15,887	17,971
Total	$ 2,169	$ 6,518	$ 8,687	$ 580,564	$ 589,251

December 31, 2021	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 1,034	$ 1,982	$ 3,016	$ 298,415	$ 301,431
Production and intermediate-term	737	2,999	3,736	186,566	190,302
Agribusiness	–	982	982	17,948	18,930
Rural residential real estate	89	–	89	20,112	20,201
Other	1,144	458	1,602	22,526	24,128
Total	$ 3,004	$ 6,421	$ 9,425	$ 545,567	$ 554,992

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

	December 31, 2023
Nonaccrual loans:	
Real estate mortgage	$ 2,452
Production and intermediate-term	523
Agribusiness	1,290
Rural residential real estate	109
Total	$ 4,374
Accruing loans 90 days or more past due:	
Total	$ –
Total nonperforming loans	$ 4,374
Other property owned	1,295
Total nonperforming assets	$ 5,669
Nonaccrual loans as a percentage of total loans	0.72%
Nonperforming assets as a percentage of total loans and other property owned	0.93%
Nonperforming assets as a percentage of capital	4.50%

	December 31, 2022*	December 31, 2021*
Nonaccrual loans:		
Real estate mortgage	$ 1,599	$ 2,268
Production and intermediate-term	3,329	3,830
Agribusiness	1,116	1,168
Rural residential real estate	185	4
Total	$ 6,229	$ 7,270
Accruing restructured loans:		
Real estate mortgage	$ 3,540	$ 3,828
Production and intermediate-term	–	173
Rural residential real estate	6	10
Total	$ 3,546	$ 4,011
Accruing loans 90 days or more past due:		
Other (including Mission Related)	$ 1,186	$ 458
Total	$ 1,186	$ 458
Total nonperforming loans	$ 10,961	$ 11,739
Other property owned	–	–
Total nonperforming assets	$ 10,961	$ 11,739
Nonaccrual loans as a percentage of total loans	1.07%	1.32%
Nonperforming assets as a percentage of total loans and other property owned	1.88%	2.14%
Nonperforming assets as a percentage of capital	9.40%	10.75%

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

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

	December 31, 2023			Interest Income Recognized on Nonaccrual Loans
Nonaccrual loans:	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	For the Year Ended December 31, 2023
Real estate mortgage	$ –	$ 2,453	$ 2,453	$ 228
Production and intermediate-term	392	131	523	49
Agribusiness	1,350	(60)	1,290	120
Rural residential real estate	–	109	109	10
Total	$ 1,742	$ 2,633	$ 4,375	$ 407

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for Loan Losses:							
Balance at December 31, 2022	$ 2,828	$ 3,448	$ 510	$ 12	$ 101	$ 2	$ 6,901
Cumulative effect of a change in accounting principle	(2,152)	(2,090)	(388)	(10)	(60)	(1)	(4,701)
Balance at January 1, 2023	$ 676	$ 1,358	$ 122	$ 2	$ 41	$ 1	$ 2,200
Charge-offs	(24)	(857)	–	–	–	–	(881)
Recoveries	31	101	–	–	–	–	132
Provision for loan losses	(46)	(3)	294	9	8	–	262
Balance at December 31, 2023	$ 637	$ 599	$ 416	$ 11	$ 49	$ 1	$ 1,713
Allowance for Unfunded Commitments:							
Balance at December 31, 2022	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Cumulative effect of a change in accounting principle	18	73	29	5	4	–	129
Balance at January 1, 2023	$ 18	$ 73	$ 29	$ 5	$ 4	$ –	$ 129
Provision for unfunded commitments	7	71	40	5	6	1	130
Balance at December 31, 2023	$ 25	$ 144	$ 69	$ 10	$ 10	$ 1	$ 259
Total allowance for credit losses	$ 662	$ 743	$ 485	$ 21	$ 59	$ 2	$ 1,972
Allowance for Loan Losses*:							
Balance at December 31, 2021	$ 2,876	$ 3,665	$ 245	$ –	$ 140	$ –	$ 6,926
Charge-offs	(1)	(31)	–	–	–	–	(32)
Recoveries	20	68	–	–	–	–	88
Provision for loan losses	(67)	(254)	265	12	(39)	2	(81)
Balance at December 31, 2022	$ 2,828	$ 3,448	$ 510	$ 12	$ 101	$ 2	$ 6,901
Balance at December 31, 2020	$ 3,036	$ 3,531	$ 297	$ –	$ 129	$ –	$ 6,993
Charge-offs	(3)	(195)	–	–	–	–	(198)
Recoveries	27	156	–	–	23	–	206
Provision for loan losses	(184)	173	(52)	–	(12)	–	(75)
Balance at December 31, 2021	$ 2,876	$ 3,665	$ 245	$ –	$ 140	$ –	$ 6,926

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

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

Loans held for sale were $1,890, $0, and $0 at December 31, 2023, 2022, and 2021, respectively. Such loans are carried at the lower of cost or fair value.

Troubled Debt Restructurings

Prior to the adoption of updated FASB guidance on loan modifications on January 1, 2023, a restructuring of a loan constituted a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program, were borrower-specific, and could include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a TDR, these loans were included within impaired loans under nonaccrual or accruing restructured loans. There were no TDRs that occurred during December 31, 2022 and 2021.

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

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

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

	Total TDRs		Nonaccrual TDRs	
	December 31,		December 31,	
	2022*	2021*	2022*	2021*
Real estate mortgage	$ 3,590	$ 4,046	$ 50	$ 218
Production and intermediate-term	635	805	635	632
Rural residential real estate	6	10	–	–
Total loans	$ 4,231	$ 4,861	$ 685	$ 850
Additional commitments to lend	$ –	$ 83		

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

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $9,302 for 2023, $6,768 for 2022 and $4,918 for 2021. The Association owned 1.79 percent of the issued stock and allocated retained earnings of the Bank as of December 31, 2023 net of any reciprocal investment. As of that date, the Bank's assets totaled $45.0 billion and shareholders' equity totaled $1.7 billion. The Bank's earnings were $265 million for 2023. In addition, the Association had investments of $453 related to other Farm Credit institutions at December 31, 2023.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2023	2022	2021
Land	$ 2,549	$ 2,549	$ 2,354
Buildings and improvements	6,247	6,115	4,836
Furniture and equipment	2,067	1,973	2,075
	10,863	10,637	9,265
Less: accumulated depreciation	3,318	2,970	3,249
Total	$ 7,545	$ 7,667	$ 6,016

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

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

The weighted average interest rates on the variable rate advances were 6.30 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 6.24 percent for Prime-based loans, and the weighted average remaining maturities were 3.6 years and 1.4 years, respectively, at December 31, 2023. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.58 percent, and the weighted average remaining maturity was 12.8 years at December 31, 2023. The weighted average interest rate on all interest-bearing notes payable was 4.19 percent and the weighted average remaining maturity was 10.4 years at December 31, 2023. Variable rate and fixed rate notes payable represent approximately 3.60 percent and 96.40 percent, respectively, of total notes payable at December 31, 2002. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Common stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of $1 thousand or two percent of the loan amount. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

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

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

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

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

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

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

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer	Minimum Requirement including Capital Conservation Buffer	Capital Ratios as of December 31, 2023	2022	2021
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	18.48%	18.40%	18.18%
Tier 1 Capital	6.0%	2.5%	8.5%	18.48%	18.40%	18.18%
Total Capital	8.0%	2.5%	10.5%	19.12%	19.82%	19.71%
Permanent Capital	7.0%	0.0%	7.0%	19.02%	19.13%	18.97%
Non-risk-adjusted ratios:						
Tier 1 Leverage*	4.0%	1.0%	5.0%	18.61%	18.53%	17.42%
URE and UREE Leverage	1.5%	0.0%	1.5%	18.31%	18.19%	17.18%

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

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

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

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

Class	Protected	Shares Outstanding Number	Aggregate Par Value
B Common/Nonvoting	No	250,605	$ 1,253
C Common/Voting	No	610,200	3,051
C Participation Certificates/Nonvoting	No	120,117	601
Total Capital Stock and Participation Certificates		980,922	$ 4,905

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

At December 31, 2023, allocated members' equity consisted of $60,887 of nonqualified retained surplus.

Patronage Distributions

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

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

Dividends

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

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

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

Transfer

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

Impairment

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

1. Classes B and C Common Stock and Participation Certificates

Liquidation

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

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

Note 8 — Fair Value Measurement

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

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

	December 31, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ –	$ –	$ –	$ –
Nonrecurring assets				
Impaired loans	$ –	$ –	$ 1,418	$ 1,418
Other property owned	$ –	$ –	$ 1,817	$ 1,817

	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	$ –	$ –	$ 1,236	$ 1,236
Other property owned	$ –	$ –	$ –	$ –

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

Valuation Techniques

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

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

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

Note 9 — Employee Benefit Plans

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

1. Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

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

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

The IAR Plan covers employees hired prior to January 1, 2009 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. IAR Plan expenses included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were $472 for 2023, $701 for 2022, and $996 for 2021. At December 31, 2023, 2022, and 2021, the total liability balance for the IAR Plan presented in the District Combined Balance Sheets was $7,993, $7,335, and $8,686, respectively. The IAR Plan was 86.62 percent, 88.52 percent, and 90.25 percent funded to the projected benefit obligation as of December 31, 2023, 2022, and 2021, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Consolidated Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Consolidated Statements of Comprehensive Income were $248 for 2023, $208 for 2022, and $170 for 2021. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $160,980, $167,895, and $209,599 at December 31, 2023, 2022, and 2021, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. The 401(k) Plan requires the Association to match 100 percent of employee optional contributions up to a maximum employee contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $423, $385, and $354 for the years ended December 31, 2023, 2022, and 2021, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2008.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2023 amounted to $15,367. During 2023, $2,851 of new loans were made and repayments totaled $722. In the opinion of management, none of these loans outstanding at December 31, 2023 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2023, $159,897 of commitments to extend credit and $5 of commercial letters of credit were outstanding. A reserve for unfunded commitments of $259 was included in Other Liabilities on the Consolidated Balance Sheets at December 31, 2023.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2023, standby letters of credit outstanding totaled $77 with expiration dates ranging from January 1, 2024 to August 19, 2027. The maximum potential amount of future payments that may be required under these guarantees was $77.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2023	**2022**	**2021**
Current:			
Federal	$ 56	$ (14)	$ 46
Deferred:	–	–	–
Total provision (benefit) for income taxes	$ 56	$ (14)	$ 46

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

	December 31,		
	2023	**2022**	**2021**
Federal tax at statutory rate	$ 1,955	$ 2,266	$ 3,136
Patronage distributions	(894)	(661)	(1,190)
Tax-exempt FLCA earnings	(1,009)	(1,288)	(1,976)
Change in deferred tax asset valuation allowance	(457)	(201)	174
Other	461	(130)	(98)
Provision (benefit) for income taxes	$ 56	$ (14)	$ 46

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

	December 31, 2023	2022	2021
Deferred income tax assets:			
Allowance for loan losses	$ 367	$ 804	$ 892
Nonaccrual Interest	112	194	140
Annual leave	68	64	68
Other reserves and allowances	40	–	–
Other Property Owned write-downs	–	–	–
Loss Carryforward	–	–	–
Gross deferred tax assets	587	1,062	1,100
Less: valuation allowance	(400)	(857)	(1,058)
Gross deferred tax assets, net of valuation allowance	187	205	42
Deferred income tax liabilities:			
Pensions and other postretirement benefits	–	–	–
FAS 91	–	–	–
Depreciation	(10)	(28)	(42)
Special Patronage	(177)	(177)	–
Gross deferred tax liability	(187)	(205)	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2023, deferred income taxes have not been provided by the Association on approximately $6.2 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 $400, $857 and $1,058 as of December 31, 2023, 2022 and 2021, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and no unrecognized tax benefits at December 31, 2023 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

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

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

2023	First	Second	Third	Fourth	Total
Net interest income	$ 4,338	$ 4,426	$ 4,477	$ 4,382	$ 17,623
Provision for (reversal of) allowance for credit losses	(17)	237	482	(310)	392
Noninterest income (expense), net	(2,024)	(1,811)	(1,803)	(2,327)	(7,965)
Net income	$ 2,331	$ 2,378	$ 2,192	$ 2,365	$ 9,266

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

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

Note 14 — Subsequent Events

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

River Valley AGCREDIT

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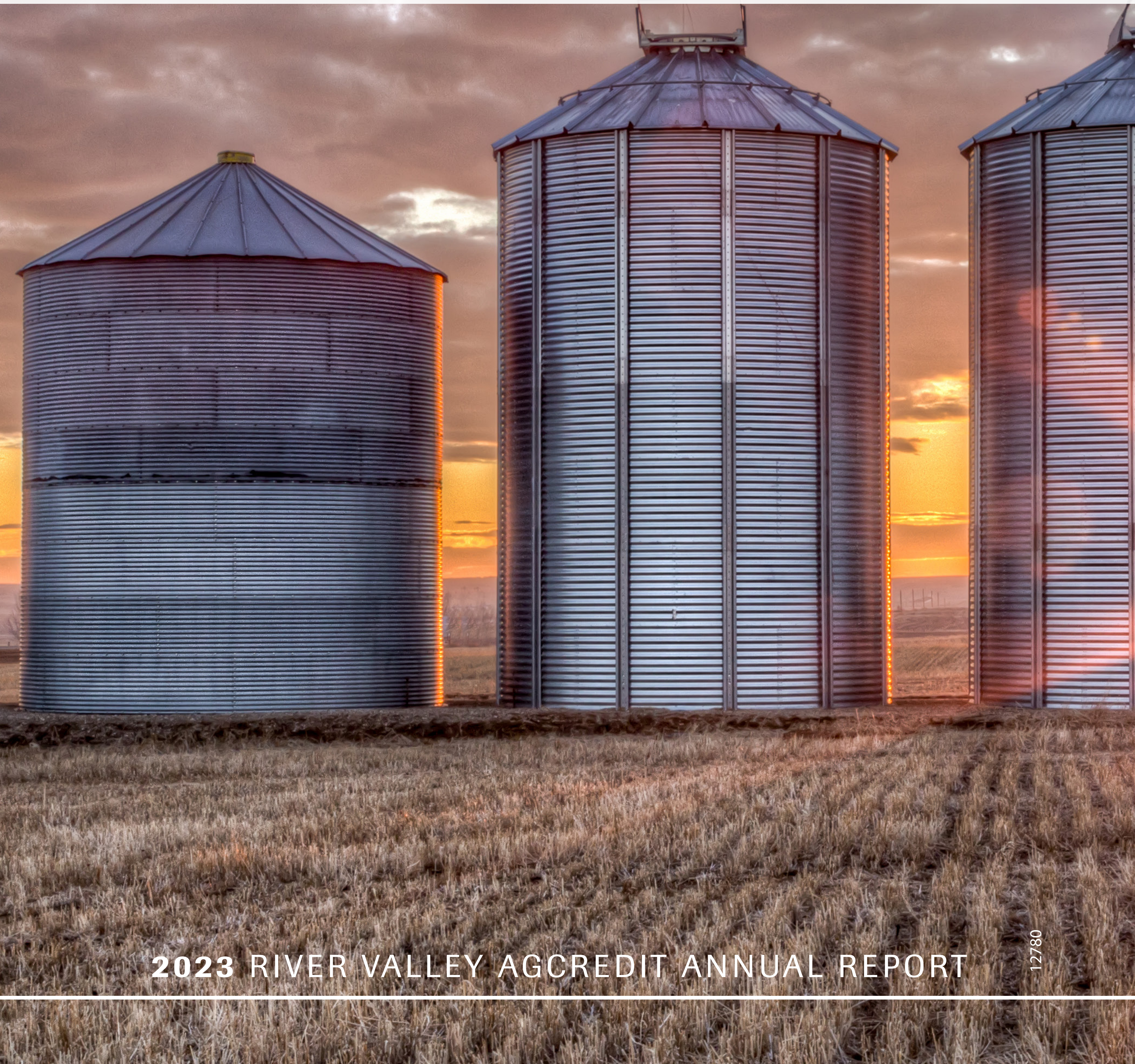

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