




Top Hat Plan for Taxable Employers

SETTING UP FUTURE PAYMENTS FOR EMPLOYEES AND DIRECTORS

These instructions have been prepared to assist with the administration of your co-op's Top Hat Plan.

-  Prospective participants should be encouraged to consult an attorney or personal tax advisor to develop a tax strategy before electing their form of payment or taking any other action with respect to their participation in a nonqualified deferred compensation plan.
-  Retain the original, signed copies of each participant's payment election form(s) in the co-op's records, as the U.S. Department of Labor may request copies.
-  If you have any questions, please contact the Homestead Advisers Deferred Compensation team at deferredcomp@homesteadadvisers.com.

IMPORTANT: Homestead Advisers offers nonqualified deferred compensation plans as an additional service to members for their employees and directors and provides certain administrative support services; however, Homestead Advisers does not sponsor or act as the plan administrator of these plans, assume liability for their operation, or provide legal or tax advice in conjunction with the plans. Co-ops and participants are responsible for any tax or legal consequences associated with their adoption, operation or participation in nonqualified deferred compensation plans.

Setting Up Future Payments for the Top Hat Plan for Employees and Directors

Distribution Timing

Distributions will be made in accordance with the options and terms currently in effect for your co-op's plan, and in accordance with the participant's payment election form on file with your co-op. When they enroll in the plan, participants indicate both of the following:

- a) When the distribution will be received
- b) In what form the distribution will be paid

Participants may make changes to the payment election form in accordance with the Top Hat Plan document. Any change to the payment election form must result in a new payment date that is at least five years later than the original payment date. Because of that, it is important for participants to consider the timing and form of distribution from the Top Hat Plan when enrolling in the plan. Participants should also consider their distribution options relative to other company benefit plans (if applicable), personal investments and Social Security benefits. Participants should consult their own tax or financial advisors before taking any action with respect to personal investments and benefits.

Benefits under the Top Hat Plan are payable to participants under the following circumstances:

- Separation from service (retirement or termination)
- Disability
- In the event of an unforeseeable emergency
- Qualified domestic relations order
- Upon the participant's death, to the designated beneficiary(ies)

Forms of Payment

Benefits may be paid out as:

- A single-sum, cash payment
- A series of installments
- A combination of a lump sum and a series of installments
- An in-kind transfer (which will be taxed as a single-sum, cash payment)

Always confirm the options available in your co-op's plan document.

Initiating a Distribution

To initiate a distribution from the Top Hat Plan, the co-op's authorized representative will:

- Review the participant's current payment election form, which indicates how benefits are to be paid.
- Contact the investment company and request a redemption form. The co-op will complete and submit this form according to the participant's elections.
- The distribution amount will be sent to the co-op and should be deposited in an appropriate co-op account. The co-op will then issue a check for the distribution to the plan participant (or beneficiary).

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Tax Treatment of Distributions

Distributions under the Top Hat Plan are taxed in the year the participant receives the distribution.

For Employees: At the time of distribution, the value of the compensation and any earnings are considered taxable income and tax withholding applies. The payment to the participant is treated like a payroll check (i.e., apply any income tax withholding requested by the participant). Even though the participant may be retired and no longer an employee, the amount of the distribution is still reported on form W-2.

For FICA tax purposes, withholding on Top Hat Plan deferrals should be performed in the year the services are performed. Federal income tax withholding and reporting is required in the year of distribution.

For Directors: Directors are considered independent contractors (not employees) who provide services for your co-op. The co-op doesn't withhold taxes from deferrals or payments. This means IRS form 1099 does not reflect deferrals to the plan; however, an IRS form 1099-NEC is required for each year a participant receives distributions from the plan. The distributions are reported as nonemployee compensation on IRS form 1099-NEC in boxes 1 and 7 (if applicable for state income).

IMPORTANT: Because tax regulations change from time to time and from state to state, remind participants to consult their own tax advisor about the implications of taking any distributions from the plan. Participants may not roll over distributions to an Individual Retirement Account (IRA), 401(k) plan or other tax-deferred account.

Potential Impact on Your Social Security Benefits

They should also check with their tax advisor before starting distributions of deferred compensation to understand the potential effect on their Social Security benefits.

Important Points to Consider

- *Changing Distributions:* Participants use the payment election and re-deferral election forms to indicate the time and form of payments. Once benefit payments have begun, they cannot be changed or accelerated.
- *Unforeseeable Emergencies:* An unforeseeable emergency is defined as a severe financial hardship for the participant or beneficiary resulting from:
 - An illness or accident experienced by the participant or beneficiary, his or her spouse, or dependents
 - Property loss due to casualty or some other extraordinary or unforeseeable circumstance arising from events beyond the control of the participant or beneficiary
 - Funeral expenses of the participant's spouse or dependent
 - Other similar extraordinary and unforeseeable circumstances beyond the control of the participant or beneficiary

The criteria for an unforeseeable emergency are more restrictive than the IRS rules for hardship distributions, which apply to 401(k) plans. Participants seeking unforeseeable emergency distributions must show that emergency expenses could not otherwise be covered by insurance, liquidation of the participant's assets or cessation of deferrals under the plan. For additional information, benefits administrators can go online to the [irs.gov](https://www.irs.gov) website.

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- *Unfunded Plans:* As a nonqualified deferred compensation plan, the Top Hat Plan must be unfunded, remaining an asset of the co-op until paid. The plan's assets are subject to the demands of general creditors in the event of insolvency of the business in order to avoid the imposition of the Employee Retirement Income Security Act of 1974 requirements. Plan participants are considered unsecured, general creditors of the co-op.

The co-op contractually promises to pay the plan benefit to individual participants at a later date, such as at retirement or separation from service, or to designated beneficiaries upon the death of a participant. Prospective plan participants should seek guidance from their personal financial or tax advisors before electing to participate.