
Farm Credit of the Virginias, ACA

THIRD QUARTER 2022

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CERTIFICATION

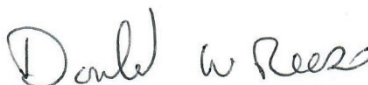
The undersigned certify that we have reviewed the September 30, 2022 quarterly report of Farm Credit of the Virginias, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements,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



Brad Cornelius
Chief Executive Officer



Justin Weekley
Chief Financial Officer



Donald W. Reese
Chairperson of the Board

November 8, 2022

Report on Internal Control Over Financial Reporting

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

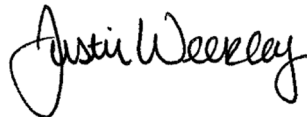
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions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

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

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



Brad Cornelius
Chief Executive Officer



Justin Weekley
Chief Financial Officer

November 8, 2022

Farm Credit of the Virginias, ACA

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

(dollars in thousands)

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

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including livestock, timber, poultry and field crops. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat impacts the level of dependency on a given commodity.

As of September 30, 2022, the gross loan volume of the Association was \$2,085,345 compared to \$2,029,094 at December 31, 2021. Gross loan volume increased by \$56,251 or 2.77 percent when compared to gross loan volume at December 31, 2021. Net loans outstanding at September 30, 2022 were \$2,067,191 as compared to \$2,011,404 at December 31, 2021. The increase in loan volume was mainly due to an increase in real estate mortgage loans made during the first nine months of 2022.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. As of September 30, 2022, nonaccrual loan volume was \$20,861 compared to \$25,705 at December 31, 2021. This was a decrease of \$4,844 as the Association continued to collect repayments against these loans and reinstated loans to accrual status, partially offset by additional loans being transferred to nonaccrual status during the first nine months of 2022. Nonaccrual loan volume to gross loan volume was 1.00 percent at September 30, 2022.

Other property owned totaled \$610 at September 30, 2022, compared to \$704 at December 31, 2021.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio. Factors considered in determining the allowance for loan losses were generally based on historical charge-off experience adjusted for relevant external factors. The allowance for loan losses at September 30, 2022 was \$18,154. The allowance for loan losses to gross loan volume was 0.87 percent.

RESULTS OF OPERATIONS

For the three months ended September 30, 2022

Net income for the three months ended September 30, 2022, totaled \$9,515 as compared to \$6,715 for the same period in 2021. This was an increase of \$2,800 or 41.70 percent. The increase in net income was primarily attributable higher net interest income and lower provisions for loan losses. Also contributing to the positive variances was the impact of loans being reinstated to accrual status or paid off during the current quarter that did not occur during the three month period ending September 30, 2021.

Net interest income increased \$2,128 or 17.70 percent for the three months ended September 30, 2022, as compared to the same period in 2021. This increase in net interest income was attributable to the increase in interest income of \$4,278 as compared to the same period of 2021 including increases in income related to nonaccrual loans, offset by an increase in interest expense of \$2,150. The increases in interest income and interest expense as compared to the same period of 2021 are primarily attributable to higher loan volumes and interest rates.

Noninterest income for the three months ended September 30, 2022 totaled \$3,623 compared to \$3,516 for the same period last year, an increase of \$107 or 3.04 percent. The increase is primarily attributable to higher patronage refunds received from other Farm Credit institutions due to the increased loan volume recorded.

Noninterest expenses for the three months ended September 30, 2022 totaled \$8,228 compared to \$8,334 for the same period in 2021. The decrease in noninterest expenses was primarily attributed to decreases in salaries and employee

benefits and other operating expenses, partially offset by higher insurance fund premiums.

For the nine months ended September 30, 2022

Net income for the nine months ended September 30, 2022 totaled \$24,132 as compared to \$21,429 for the same period in 2021. This was an increase of \$2,703 or 12.61 percent.

Net interest income for the nine months increased \$3,199 or 8.67 percent compared to the same period in 2021. The increase in net interest income was primarily due to higher interest rates and loan volumes, partially offset by lower margins as compared to September 30, 2021.

Provision for loan losses for the nine months ended September 30, 2022 totaled \$600, a decrease of \$900 from the same period of the prior year.

Noninterest income for the nine months ended September 30, 2022 totaled \$10,716 as compared to \$10,749 for the same period of 2021. This was a decrease of \$33 and was primarily attributable to lower loan fees recognized as compared to the prior year, partially offset by higher patronage refunds received from other Farm Credit institutions.

Noninterest expense for the nine months ended September 30, 2022 totaled \$26,049. This was an increase of \$1,304 or 5.27 percent compared to the same period in 2021. The increase in noninterest expenses was primarily due to higher insurance fund premiums and increases in salaries and employee benefit costs.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association’s credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate

sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2022 was \$1,623,198 as compared to \$1,566,004 at December 31, 2021. The increase of \$57,194 was primarily attributable to the increase in loan volume during the first nine months of the year.

CAPITAL RESOURCES

Total members’ equity at September 30, 2022 totaled \$479,824, an increase of \$1,197, as compared to \$478,627 at December 31, 2021. The increase in members’ equity was primarily attributed to earnings during the first nine months of 2022, partially offset by the additional patronage declaration made by the Board of Directors related to 2021 earnings of \$23,000 during the first quarter of 2022.

Farm Credit Administration (FCA) sets minimum regulatory capital requirements for System Banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new regulations ensure that the System’s capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced existing core surplus and total surplus ratios with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios. The new regulations also replaced the existing net collateral ratio with a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The current permanent capital ratio (PCR) remains in effect.

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. As of September 30, 2022, all ratios were well above the regulatory minimums.

The following sets forth the regulatory capital ratios are shown in the following table and are calculated using three month average daily balances, in accordance with FCA regulations:

Ratio	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2022	Capital Ratios as of September 30, 2021
Risk-adjusted ratios:			
CET1 Capital	7.00%	21.00%	21.59%
Tier 1 Capital	8.50%	21.00%	21.59%
Total Capital	10.50%	21.85%	22.46%
Permanent Capital Ratio	7.00%	21.18%	21.78%
Non-risk-adjusted:			
Tier 1 Leverage Ratio	5.00%	21.71%	22.35%
UREE Leverage Ratio	1.50%	21.19%	22.41%

IMPACTS OF THE COVID-19 GLOBAL PANDEMIC

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned large portions of its employees to working remotely March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. The Association has largely returned to pre-pandemic working conditions.

REGULATORY MATTERS

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

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

LIBOR Transition

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

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

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

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

<i>(dollars in thousands)</i>	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 30, 2023	Total
Loans	\$ —	\$ 4	\$ 12,191	\$ 12,195
Total	\$ —	\$ 4	\$ 12,191	\$ 12,195
Note Payable to				
AgFirst Farm Credit Bank	\$ —	\$ 3	\$ 9,318	\$ 9,321
Total	\$ —	\$ 3	\$ 9,318	\$ 9,321

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. Changes the present incurred loss impairment guidance for loans to an expected loss model. Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted. 	<ul style="list-style-type: none"> Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, An allowance will be established for estimated credit losses on any debt securities, The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts, at the adoption date. The guidance is expected to be adopted January 1, 2023.
<i>ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures</i>	
<ul style="list-style-type: none"> This Update responds to feedback received during the Post Implementation Review process conducted by the FASB related to Topic 326. <u>Troubled Debt Restructurings (TDRs) by Creditors</u> The amendments eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan. <u>Vintage Disclosures—Gross Writeoffs</u> For public business entities, the amendments in this Update require that an entity disclose current period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. 	<ul style="list-style-type: none"> These amendments will be implemented in conjunction with the adoption of ASU 2016-13.
<i>ASU 2022-03—Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions</i>	
<ul style="list-style-type: none"> This Update clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. It also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The guidance clarifies accounting principles for measuring the fair value of an equity security subject to a contractual sale restriction and improves current GAAP by reducing diversity in practice, reducing cost and complexity, and increasing comparability of financial information across reporting entities. The amendments also require certain disclosures for equity securities subject to contractual sale restrictions. 	<ul style="list-style-type: none"> For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. For all entities except investment companies, the Update should be applied prospectively with any adjustments from adoption recognized in earnings. Early adoption is permitted.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and 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 at their website, www.agfirst.com. Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 540-886-3435, ext. 5040, or writing Justin Weekley, Farm Credit of the Virginias, ACA, P.O. Box 899, Staunton, VA 24402, or accessing the website, www.farmcreditorvirginias.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of the Virginias, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2022 <i>(unaudited)</i>	December 31, 2021 <i>(audited)</i>
Assets		
Cash	\$ 90	\$ 529
Loans	2,085,345	2,029,094
Allowance for loan losses	(18,154)	(17,690)
Net loans	2,067,191	2,011,404
Loans held for sale	392	351
Accrued interest receivable	13,167	8,243
Equity investments in other Farm Credit institutions	16,872	16,779
Premises and equipment, net	12,419	12,314
Other property owned	610	704
Accounts receivable	9,237	32,004
Other assets	2,381	2,343
Total assets	\$ 2,122,359	\$ 2,084,671
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,623,198	\$ 1,566,004
Accrued interest payable	4,024	3,240
Patronage refunds payable	917	22,762
Accounts payable	3,934	2,842
Other liabilities	10,462	11,196
Total liabilities	1,642,535	1,606,044
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	10,899	10,835
Retained earnings		
Allocated	92,568	92,568
Unallocated	376,393	375,261
Accumulated other comprehensive income (loss)	(36)	(37)
Total members' equity	479,824	478,627
Total liabilities and members' equity	\$ 2,122,359	\$ 2,084,671

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

Farm Credit of the Virginias, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest Income				
Loans	\$ 25,997	\$ 21,719	\$ 72,398	\$ 65,007
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	11,844	9,694	32,282	28,090
Net interest income	14,153	12,025	40,116	36,917
Provision for loan losses	—	500	600	1,500
Net interest income after provision for loan losses	14,153	11,525	39,516	35,417
Noninterest Income				
Loan fees	269	186	615	1,213
Fees for financially related services	3	3	12	37
Lease income	15	17	49	51
Patronage refunds from other Farm Credit institutions	3,094	2,902	9,146	8,465
Gains (losses) on sales of rural home loans, net	241	359	803	864
Gains (losses) on sales of premises and equipment, net	47	40	191	53
Gains (losses) on other transactions	(47)	9	(101)	66
Other noninterest income	1	—	1	—
Total noninterest income	3,623	3,516	10,716	10,749
Noninterest Expense				
Salaries and employee benefits	5,237	5,389	16,713	16,095
Occupancy and equipment	352	357	1,138	1,077
Insurance Fund premiums	810	608	2,375	1,753
Purchased services	507	470	1,520	1,463
Data processing	120	118	366	341
Other operating expenses	1,195	1,394	3,905	3,814
(Gains) losses on other property owned, net	7	(2)	32	202
Total noninterest expense	8,228	8,334	26,049	24,745
Income before income taxes	9,548	6,707	24,183	21,421
Provision (benefit) for income taxes	33	(8)	51	(8)
Net income	\$ 9,515	\$ 6,715	\$ 24,132	\$ 21,429
Other comprehensive income net of tax				
Employee benefit plans adjustments	—	1	1	1
Comprehensive income	\$ 9,515	\$ 6,716	\$ 24,133	\$ 21,430

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

Farm Credit of the Virginias, ACA
Consolidated Statements of Changes in
Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2020	\$ 10,530	\$ 92,568	\$ 347,632	\$ (40)	\$ 450,690
Comprehensive income			21,429	1	21,430
Capital stock/participation certificates issued/(retired), net	424				424
Balance at September 30, 2021	\$ 10,954	\$ 92,568	\$ 369,061	\$ (39)	\$ 472,544
Balance at December 31, 2021	\$ 10,835	\$ 92,568	\$ 375,261	\$ (37)	\$ 478,627
Comprehensive income			24,132	1	24,133
Capital stock/participation certificates issued/(retired), net	64				64
Patronage distribution Cash			(23,000)		(23,000)
Balance at September 30, 2022	\$ 10,899	\$ 92,568	\$ 376,393	\$ (36)	\$ 479,824

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

Farm Credit of the Virginias, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

Accounting Standards Effective During the Period

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

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

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

A summary of loans outstanding at period end follows:

	September 30, 2022	December 31, 2021
Real estate mortgage	\$ 1,637,681	\$ 1,599,565
Production and intermediate-term	319,196	317,408
Loans to cooperatives	71	85
Processing and marketing	44,242	34,975
Farm-related business	14,053	10,805
Communication	4,633	2,654
Rural residential real estate	59,592	63,602
International	5,877	-
Total loans	<u>\$ 2,085,345</u>	<u>\$ 2,029,094</u>

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

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

	September 30, 2022							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 19,778	\$ 2,984	\$ -	\$ -	\$ -	\$ -	\$ 19,778	\$ 2,984
Production and intermediate-term	22,851	6,591	145	-	-	-	22,996	6,591
Processing and marketing	21,477	-	-	-	-	-	21,477	-
Communication	4,646	-	-	-	-	-	4,646	-
International	5,883	-	-	-	-	-	5,883	-
Total	<u>\$ 74,635</u>	<u>\$ 9,575</u>	<u>\$ 145</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,780</u>	<u>\$ 9,575</u>

	December 31, 2021							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 19,835	\$ 3,146	\$ -	\$ -	\$ -	\$ -	\$ 19,835	\$ 3,146
Production and intermediate-term	21,847	4,991	197	-	-	-	22,044	4,991
Processing and marketing	10,756	-	-	-	-	-	10,756	-
Communication	2,666	-	-	-	-	-	2,666	-
Total	<u>\$ 55,104</u>	<u>\$ 8,137</u>	<u>\$ 197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,301</u>	<u>\$ 8,137</u>

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

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

	September 30, 2022	December 31, 2021		September 30, 2022	December 31, 2021
Real estate mortgage:			Farm-related business:		
Acceptable	96.27%	95.59%	Acceptable	98.36%	97.14%
OAEM	1.82	2.12	OAEM	1.52	0.09
Substandard/doubtful/loss	1.91	2.29	Substandard/doubtful/loss	0.12	2.77
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Communication:		
Acceptable	94.16%	92.50%	Acceptable	100.00%	100.00%
OAEM	2.87	3.73	OAEM	-	-
Substandard/doubtful/loss	2.97	3.77	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	100.00%	Acceptable	97.36%	96.97%
OAEM	-	-	OAEM	1.53	1.52
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	1.11	1.51
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Processing and marketing:			International:		
Acceptable	73.63%	59.52%	Acceptable	100.00%	-%
OAEM	26.37	13.72	OAEM	-	-
Substandard/doubtful/loss	-	26.76	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>-%</u>
			Total loans:		
			Acceptable	95.53%	94.54%
			OAEM	2.48	2.54
			Substandard/doubtful/loss	1.99	2.92
				<u>100.00%</u>	<u>100.00%</u>

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

	September 30, 2022				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 2,887	\$ 2,688	\$ 5,575	\$ 1,641,569	\$ 1,647,144
Production and intermediate-term	1,220	1,556	2,776	319,710	322,486
Loans to cooperatives	-	-	-	71	71
Processing and marketing	-	-	-	44,306	44,306
Farm-related business	36	-	36	14,102	14,138
Communication	-	-	-	4,634	4,634
Rural residential real estate	680	45	725	59,130	59,855
International	-	-	-	5,878	5,878
Total	<u>\$ 4,823</u>	<u>\$ 4,289</u>	<u>\$ 9,112</u>	<u>\$ 2,089,400</u>	<u>\$ 2,098,512</u>

	December 31, 2021				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 4,518	\$ 3,820	\$ 8,338	\$ 1,597,356	\$ 1,605,694
Production and intermediate-term	1,241	3,744	4,985	314,287	319,272
Loans to cooperatives	-	-	-	85	85
Processing and marketing	-	-	-	35,041	35,041
Farm-related business	220	-	220	10,615	10,835
Communication	-	-	-	2,654	2,654
Rural residential real estate	116	415	531	63,225	63,756
Total	<u>\$ 6,095</u>	<u>\$ 7,979</u>	<u>\$ 14,074</u>	<u>\$ 2,023,263</u>	<u>\$ 2,037,337</u>

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

	September 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	\$ 13,761	\$ 15,168
Production and intermediate-term	6,860	9,854
Farm-related business	(8)	(3)
Rural residential real estate	248	686
Total	<u>\$ 20,861</u>	<u>\$ 25,705</u>
Accruing restructured loans:		
Real estate mortgage	\$ 3,997	\$ 5,069
Production and intermediate-term	1,469	836
Processing and marketing	9,149	8,969
Farm-related business	26	36
Total	<u>\$ 14,641</u>	<u>\$ 14,910</u>
Accruing loans 90 days or more past due:		
Total	<u>\$ -</u>	<u>\$ -</u>
Performing impaired loans:		
Real estate mortgage	\$ 480	\$ 444
Production and intermediate-term	3	29
Total	<u>\$ 483</u>	<u>\$ 473</u>
Total nonperforming loans	\$ 35,985	\$ 41,088
Other property owned	610	704
Total nonperforming assets	<u>\$ 36,595</u>	<u>\$ 41,792</u>
Nonaccrual loans as a percentage of total loans	1.00%	1.27%
Nonperforming assets as a percentage of total loans and other property owned	1.75%	2.06%
Nonperforming assets as a percentage of capital	<u>7.63%</u>	<u>8.73%</u>

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	September 30, 2022	December 31, 2021
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 14,775	\$ 15,761
Past due	6,086	9,944
Total	<u>\$ 20,861</u>	<u>\$ 25,705</u>
Impaired accrual loans:		
Performing	\$ 483	\$ 473
Restructured	14,641	14,910
90 days or more past due	-	-
Total	<u>\$ 15,124</u>	<u>\$ 15,383</u>
Total impaired loans	<u>\$ 35,985</u>	<u>\$ 41,088</u>
Additional commitments to lend	<u>\$ 1,988</u>	<u>\$ 2,036</u>

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

Impaired loans:	September 30, 2022			Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	\$ 2,060	\$ 2,455	\$ 102	\$ 2,127	\$ 71	\$ 2,250	\$ 115
Production and intermediate-term	2,370	2,837	1,532	2,446	82	2,588	133
Processing and marketing	—	—	—	—	—	—	—
Farm-related business	—	—	—	—	—	—	—
Rural residential real estate	—	—	—	—	—	—	—
Total	\$ 4,430	\$ 5,292	\$ 1,634	\$ 4,573	\$ 153	\$ 4,838	\$ 248
With no related allowance for credit losses:							
Real estate mortgage	\$ 16,178	\$ 19,675	\$ —	\$ 16,704	\$ 560	\$ 17,673	\$ 904
Production and intermediate-term	5,962	10,175	—	6,156	206	6,512	333
Processing and marketing	9,149	9,151	—	9,447	317	9,994	511
Farm-related business	18	102	—	18	—	19	1
Rural residential real estate	248	370	—	255	9	270	14
Total	\$ 31,555	\$ 39,473	\$ —	\$ 32,580	\$ 1,092	\$ 34,468	\$ 1,763
Total impaired loans:							
Real estate mortgage	\$ 18,238	\$ 22,130	\$ 102	\$ 18,831	\$ 631	\$ 19,923	\$ 1,019
Production and intermediate-term	8,332	13,012	1,532	8,602	288	9,100	466
Processing and marketing	9,149	9,151	—	9,447	317	9,994	511
Farm-related business	18	102	—	18	—	19	1
Rural residential real estate	248	370	—	255	9	270	14
Total	\$ 35,985	\$ 44,765	\$ 1,634	\$ 37,153	\$ 1,245	\$ 39,306	\$ 2,011

Impaired loans:	December 31, 2021			Year Ended December 31, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 3,275	\$ 3,486	\$ 231	\$ 3,263	\$ 173
Production and intermediate-term	5,000	6,253	2,464	4,981	264
Processing and marketing	—	—	—	—	—
Farm-related business	35	32	—	35	2
Rural residential real estate	1	13	13	1	—
Total	\$ 8,311	\$ 9,784	\$ 2,708	\$ 8,280	\$ 439
With no related allowance for credit losses:					
Real estate mortgage	\$ 17,406	\$ 20,630	\$ —	\$ 17,340	\$ 918
Production and intermediate-term	5,719	10,019	—	5,698	302
Processing and marketing	8,969	8,962	—	8,935	474
Farm-related business	(2)	86	—	(2)	—
Rural residential real estate	685	817	—	682	36
Total	\$ 32,777	\$ 40,514	\$ —	\$ 32,653	\$ 1,730
Total impaired loans:					
Real estate mortgage	\$ 20,681	\$ 24,116	\$ 231	\$ 20,603	\$ 1,091
Production and intermediate-term	10,719	16,272	2,464	10,679	566
Processing and marketing	8,969	8,962	—	8,935	474
Farm-related business	33	118	—	33	2
Rural residential real estate	686	830	13	683	36
Total	\$ 41,088	\$ 50,298	\$ 2,708	\$ 40,933	\$ 2,169

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:							
Balance at June 30, 2022	\$ 7,604	\$ 9,651	\$ 741	\$ 20	\$ 274	\$ –	\$ 18,290
Charge-offs	–	(216)	–	–	–	–	(216)
Recoveries	5	71	4	–	–	–	80
Provision for loan losses	21	(275)	238	5	(14)	25	–
Balance at September 30, 2022	\$ 7,630	\$ 9,231	\$ 983	\$ 25	\$ 260	\$ 25	\$ 18,154
Balance at December 31, 2021	\$ 7,301	\$ 9,551	\$ 545	\$ 16	\$ 277	\$ –	\$ 17,690
Charge-offs	–	(369)	–	–	(2)	–	(371)
Recoveries	61	164	7	–	3	–	235
Provision for loan losses	268	(115)	431	9	(18)	25	600
Balance at September 30, 2022	\$ 7,630	\$ 9,231	\$ 983	\$ 25	\$ 260	\$ 25	\$ 18,154
Balance at June 30, 2021	\$ 6,982	\$ 9,683	\$ 380	\$ 41	\$ 265	\$ –	\$ 17,351
Charge-offs	–	(29)	–	–	(12)	–	(41)
Recoveries	15	16	1	–	–	–	32
Provision for loan losses	294	121	51	(25)	59	–	500
Balance at September 30, 2021	\$ 7,291	\$ 9,791	\$ 432	\$ 16	\$ 312	\$ –	\$ 17,842
Balance at December 31, 2020	\$ 6,664	\$ 8,869	\$ 444	\$ 60	\$ 349	\$ –	\$ 16,386
Charge-offs	–	(146)	–	–	(43)	–	(189)
Recoveries	33	105	6	–	1	–	145
Provision for loan losses	594	963	(18)	(44)	5	–	1,500
Balance at September 30, 2021	\$ 7,291	\$ 9,791	\$ 432	\$ 16	\$ 312	\$ –	\$ 17,842
Allowance on loans evaluated for impairment:							
Individually	\$ 102	\$ 1,532	\$ –	\$ –	\$ –	\$ –	\$ 1,634
Collectively	7,528	7,699	983	25	260	25	16,520
Balance at September 30, 2022	\$ 7,630	\$ 9,231	\$ 983	\$ 25	\$ 260	\$ 25	\$ 18,154
Individually	\$ 231	\$ 2,464	\$ –	\$ –	\$ 13	\$ –	\$ 2,708
Collectively	7,070	7,087	545	16	264	–	14,982
Balance at December 31, 2021	\$ 7,301	\$ 9,551	\$ 545	\$ 16	\$ 277	\$ –	\$ 17,690
Recorded investment in loans evaluated for impairment:							
Individually	\$ 18,238	\$ 8,332	\$ 9,167	\$ –	\$ 248	\$ –	\$ 35,985
Collectively	1,628,906	314,154	49,348	4,634	59,607	5,878	2,062,527
Balance at September 30, 2022	\$ 1,647,144	\$ 322,486	\$ 58,515	\$ 4,634	\$ 59,855	\$ 5,878	\$ 2,098,512
Individually	\$ 20,681	\$ 10,719	\$ 9,002	\$ –	\$ 686	\$ –	\$ 41,088
Collectively	1,585,013	308,553	36,959	2,654	63,070	–	1,996,249
Balance at December 31, 2021	\$ 1,605,694	\$ 319,272	\$ 45,961	\$ 2,654	\$ 63,756	\$ –	\$ 2,037,337

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

Outstanding Recorded Investment	Three Months Ended September 30, 2022				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ –	\$ 282	\$ –	\$ 282	
Production and intermediate-term	–	981	–	981	
Total	\$ –	\$ 1,263	\$ –	\$ 1,263	
Post-modification:					
Real estate mortgage	\$ –	\$ 283	\$ –	\$ 283	\$ (15)
Production and intermediate-term	–	926	–	926	–
Total	\$ –	\$ 1,209	\$ –	\$ 1,209	\$ (15)

Nine Months Ended September 30, 2022					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ –	\$ 803	\$ –	\$ 803	
Production and intermediate-term	125	2,717	286	3,128	
Total	\$ 125	\$ 3,520	\$ 286	\$ 3,931	
Post-modification:					
Real estate mortgage	\$ –	\$ 854	\$ –	\$ 854	\$ (15)
Production and intermediate-term	125	2,668	286	3,079	–
Total	\$ 125	\$ 3,522	\$ 286	\$ 3,933	\$ (15)

Three Months Ended September 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 2,458	\$ 29	\$ –	\$ 2,487	
Production and intermediate-term	–	1,088	–	1,088	
Processing and marketing	–	11,200	–	11,200	
Total	\$ 2,458	\$ 12,317	\$ –	\$ 14,775	
Post-modification:					
Real estate mortgage	\$ 2,458	\$ 29	\$ –	\$ 2,487	\$ –
Production and intermediate-term	–	1,101	–	1,101	–
Processing and marketing	–	10,900	–	10,900	–
Total	\$ 2,458	\$ 12,030	\$ –	\$ 14,488	\$ –

Nine Months Ended September 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 2,499	\$ 1,730	\$ –	\$ 4,229	
Production and intermediate-term	–	1,572	–	1,572	
Processing and marketing	–	23,300	3,000	26,300	
Total	\$ 2,499	\$ 26,602	\$ 3,000	\$ 32,101	
Post-modification:					
Real estate mortgage	\$ 2,499	\$ 1,562	\$ –	\$ 4,061	\$ –
Production and intermediate-term	–	1,588	–	1,588	–
Processing and marketing	–	23,000	3,000	26,000	–
Total	\$ 2,499	\$ 26,150	\$ 3,000	\$ 31,649	\$ –

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.

The following table presents the outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Defaulted troubled debt restructurings:				
Real estate mortgage	\$ –	\$ –	\$ 67	\$ –
Production and intermediate-term	209	106	359	106
Total	\$ 209	\$ 106	\$ 426	\$ 106

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
Real estate mortgage	\$ 8,359	\$ 9,156	\$ 4,362	\$ 4,087
Production and intermediate-term	4,050	4,584	2,581	3,748
Processing and marketing	9,149	8,969	–	–
Farm-related business	20	36	(6)	–
Total loans	\$ 21,578	\$ 22,745	\$ 6,937	\$ 7,835
Additional commitments to lend	\$ 1,976	\$ 2,034		

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 6.16 percent of the issued stock of the Bank as of September 30, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled \$41.7 billion and

shareholders' equity totaled \$1.6 billion. The Bank's earnings were \$313 million for the first nine months of 2022. In addition, the Association held \$1,051 in investments related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Employee Benefit Plans:				
Balance at beginning of period	\$ (36)	\$ (40)	\$ (37)	\$ (40)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	—	1	1	1
Net current period other comprehensive income	—	1	1	1
Balance at end of period	\$ (36)	\$ (39)	\$ (36)	\$ (39)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2022	2021	2022	2021	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ —	\$ (1)	\$ (1)	\$ (1)	See Note 7.
Net amounts reclassified	\$ —	\$ (1)	\$ (1)	\$ (1)	

(a) Amounts in parentheses indicate debits to AOCI.

(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

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

The classifications within the fair value hierarchy are as follows:

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

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

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments

whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair

value hierarchy levels, see the latest Annual Report to Shareholders.

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

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

		September 30, 2022				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Assets held in trust funds	\$	1,198	\$ 1,198	\$ –	\$ –	\$ 1,198
Recurring Assets	\$	1,198	\$ 1,198	\$ –	\$ –	\$ 1,198
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	2,796	\$ –	\$ –	\$ 2,796	\$ 2,796
Other property owned		610	–	–	749	749
Nonrecurring Assets	\$	3,406	\$ –	\$ –	\$ 3,545	\$ 3,545
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	90	\$ 90	\$ –	\$ –	\$ 90
Loans		2,064,787	–	–	1,869,794	1,869,794
Other Financial Assets	\$	2,064,877	\$ 90	\$ –	\$ 1,869,794	\$ 1,869,884
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	1,623,198	\$ –	\$ –	\$ 1,471,391	\$ 1,471,391
Other Financial Liabilities	\$	1,623,198	\$ –	\$ –	\$ 1,471,391	\$ 1,471,391
		December 31, 2021				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Assets held in trust funds	\$	1,586	\$ 1,586	\$ –	\$ –	\$ 1,586
Recurring Assets	\$	1,586	\$ 1,586	\$ –	\$ –	\$ 1,586
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	5,603	\$ –	\$ –	\$ 5,603	\$ 5,603
Other property owned		704	–	–	802	802
Nonrecurring Assets	\$	6,307	\$ –	\$ –	\$ 6,405	\$ 6,405
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	529	\$ 529	\$ –	\$ –	\$ 529
Loans		2,006,152	–	–	1,977,618	1,977,618
Other Financial Assets	\$	2,006,681	\$ 529	\$ –	\$ 1,977,618	\$ 1,978,147
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	1,566,004	\$ –	\$ –	\$ 1,551,746	\$ 1,551,746
Other Financial Liabilities	\$	1,566,004	\$ –	\$ –	\$ 1,551,746	\$ 1,551,746

Uncertainty in Measurements of Fair Value

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and

assumptions, some of which represent significant unobservable inputs as indicated below. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

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

Inputs to Valuation Techniques

Management determines the Association’s valuation policies and procedures. The Bank performs the majority of the Association’s valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party

information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Pension	\$ 608	\$ 1,016	\$ 1,823	\$ 3,049
401(k)	283	275	1,062	1,003
Other postretirement benefits	132	128	419	367
Total	\$ 1,023	\$ 1,419	\$ 3,304	\$ 4,419

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

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

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