
Southwest Georgia Farm Credit, ACA
THIRD QUARTER 2022

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2022 quarterly report of Southwest Georgia Farm Credit, 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.

/s/ Paxton W. Poitevint
President/CEO

/s/ Ryan G. Burt
Chief Financial Officer

/s/ James H. Dixon Jr.
Chairman 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.

/s/ Paxton W. Poitevint
Chief Executive Officer

/s/ Ryan G. Burt
Chief Financial Officer

November 8, 2022

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Southwest Georgia Farm Credit, 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 in our region, including timber, landlords, poultry, cotton, livestock, peanuts, fruit and nut, vegetables, and dairy. Farm size varies and many of the borrowers in the region have diversified farming operations. These factors, along with the opportunities for non-farm income in the area, reduce the level of dependency on any given commodity.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of September 30, 2022, was \$683,182, an increase of \$73,189 as compared to \$609,993 at December 31, 2021. Net loans outstanding at September 30, 2022, were \$678,548 as compared to \$605,371 at December 31, 2021. Net loans and investments accounted for 95.78 percent of total assets at September 30, 2022, as compared to 94.10 percent of total assets at December 31, 2021.

Total assets at September 30, 2022 were \$712,981 compared to \$647,983 at December 31, 2021, an increase of \$64,998 or 10.03 percent. The increase in total assets is primarily the result of the continued growth in loan volume this year.

Investment securities classed as held to maturity as of September 30, 2022 were \$4,318, a decrease of \$36 as compared to \$4,354 at December 31, 2021. There is an inherent risk in the extension of any type of credit. The current year (2022) continues to show satisfactory credit quality within

the Association's portfolio. Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" are 98.51 percent of total loans and accrued interest at September 30, 2022 as compared to 99.03 percent at December 31, 2021.

Nonaccrual loans as of September 30, 2022 were \$10,212, an increase of \$5,954 as compared to \$4,258 at December 31, 2021. This increase is primarily related to one large relationship transferring to nonaccrual status late in the 2nd quarter.

As of September 30, 2022, the association has properties classed as Other Property Owned totaling \$77. The properties consist of tangible collateral and no real estate at this time. The Association is actively marketing the properties for sale. Through September of 2022 there has been one sale totaling \$1. There is no other activity to report regarding the Association Other Property Owned.

The Association maintains an allowance for loan losses at a level considered sufficient to absorb possible losses within the loan portfolio based on current and expected future conditions. The Association increases the allowance by providing a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan is uncollectible. Any subsequent recoveries are added to the allowance. The Risk Management Committee (RIMCO), which is comprised of members of the Board of Directors, senior management, and senior lending staff, meets quarterly to evaluate the adequacy of the allowance account. The evaluation considers factors which include, among many other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions.

After review, RIMCO determined the allowance account was sufficient to absorb any expected losses in the portfolio. The allowance for loan losses at September 30, 2022, was \$4,634 compared to \$4,622 as of December 31, 2021 an increase of \$12. The association has realized \$58 in recoveries, \$46 in charge-offs and there have been no provisions this year.

RESULTS OF OPERATIONS

For the three months ended September 30, 2022

At September 30, 2022, total interest income was \$8,119 an increase of \$1,418 as compared to \$6,701 for the same period in 2021. Of the \$8,119 in total interest income, \$66 was from investment securities and \$8,053 was from loans. The increase in total interest income primarily resulted from increases in average loan volume.

Interest expense was \$4,033 an increase of \$1,189, as compared to \$2,844 for the same period in 2021. This increase is primarily the result of the increase in average loan volume and direct note rates.

Non-interest income for the three months ended September 30, 2022, totaled \$2,299 an increase of \$202 as compared to \$2,097 for the same period in 2021. The increase is primarily related to increases of \$224 in Patronage Refunds.

Non-interest expense for the three months ended September 30, 2022 totaled \$2,866, an increase of \$150 as compared to \$2,716 for the same period in 2021. The increase is primarily due to increases in Insurance Fund premiums of \$78 and Other Operating Expense of \$170.

Net income for the three months ended September 30, 2022, totaled \$3,519, an increase of \$281 as compared to \$3,238 for the same period in 2021.

For the nine months ended September 30, 2022

At September 30, 2022, total interest income was \$21,768 an increase of \$2,651 as compared to \$19,117 for the same period in 2021. Of the \$21,768 in total interest income \$199 was from investment securities and \$21,569 was from loans. The increase in total interest income is primarily related to the increase in average loan volume.

Interest expense was \$9,945, an increase of \$1,877 as compared to \$8,068 for the same period in 2021. This increase is primarily the result of the increase in average loan volume and direct note rates.

Non-interest income for the nine months ended September 30, 2022, totaled \$6,963, an increase of \$558 as compared to \$6,405 for the same period in 2021. The increase is primarily attributed to increases in Patronage Income of \$661.

Non-interest expense for the nine months ended September 30, 2022 totaled \$8,615, an increase of \$304 as compared to \$8,311 for the same period in 2021. The increase is primarily due to increases of \$213 in Insurance Fund Premium and \$446 in Other Operating expenses.

Net income for the nine months ended September 30, 2022, totaled \$10,171, an increase of \$1,028 as compared to \$9,143

for the same period in 2021. The increase primarily resulted from the growth in average loan volume.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2022, was \$587,473, an increase of \$64,501 as compared to \$522,972 at December 31, 2021. The increase is primarily the result of the growth in association loan volume. The Association has no lines of credit with third parties as of September 30, 2022.

CAPITAL RESOURCES

Total members' equity at September 30, 2022, increased \$9,057 to \$120,139 from the December 31, 2021 total of \$111,082. Total capital stock and participation certificates were \$1,574 as of September 30, 2022, which compares to the \$1,616 balance at December 31, 2021.

The System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. The core surplus and total surplus ratios have been replaced with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios. Regulations also include a tier 1 leverage ratio, an unallocated retained earnings equivalents (UREE) leverage ratio and the permanent capital ratio (PCR).

Risk-adjusted assets have been defined by FCA Regulations as the balance sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

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 means the total dollar amount of the institution's assets are 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 September 30, 2022
Risk-adjusted ratios:				
CET1 Capital	4.5%	1.875%	6.38%	15.98%
Tier 1 Capital	6.0%	1.875%	7.88%	15.98%
Total Capital	8.0%	1.875%	9.88%	16.80%
Permanent Capital Ratio	7.0%	0.0%	7.00%	16.09%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.00%	15.18%
UREE Leverage Ratio	1.5%	0.0%	1.50%	14.94%

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.

CLIMATE CHANGE

Agricultural production is and always has been vulnerable to weather events and climate change. The USDA has recognized that the changing climate presents threats to U.S. and global agricultural production and rural communities. The impact of climate change including its effect on weather is, and will continue to be, a challenge for agricultural producers. Among the risks of climate change are:

- rising average temperatures,
- more frequent and severe storms,
- more forest fires, and
- extremes in flooding and droughts.

However, risks associated with climate change are mitigated, to some degree, by U.S. agricultural producers' ability to navigate changing industry dynamics from numerous perspectives, including trade, government policy, consumer preferences and weather. Producers regularly adopt new technologies, agronomic practices and financial strategies in response to evolving trends to ensure their competitiveness.

LIBOR Transition

The Association has exposure to LIBOR arising from loans made to customers, investments, 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:

	Due in 2023			
(dollars in thousands)	Due in 2022	(On or Before June 30)	Due After June 30, 2023	Total
Loans	\$	\$ 917	\$ 19,776	\$ 20,693
Total	\$	\$ 917	\$ 19,776	\$ 20,693
Note Payable to				
AgFirst Farm Credit Bank	\$	\$ 776	\$ 16,745	\$ 17,521
Total	\$	\$ 776	\$ 16,745	\$ 17,521

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.

REGULATORY MATTERS

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

System institution's regulatory capital ratios. In addition, the regulation does not include an exclusion for the CECL day 1 cumulative effective adjustment from the "safe harbor" deemed prior approval provision. The final rule is effective on January 1, 2023.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
- 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.	- 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: - 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>	
- 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.	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>	
• 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.	• 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 1-229-246-0384 or 1-866-304-3276, writing Belinda Ott, Treasurer, Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817 or accessing the website, www.swgafarmcredit.com. The Association prepares a 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.

Southwest Georgia Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2022 <i>(unaudited)</i>	December 31, 2021 <i>(audited)</i>
Assets		
Cash	\$ 2	\$ 2
Investments in debt securities:		
Held to maturity (fair value of \$4,230 and \$5,197, respectively)	4,318	4,354
Loans	683,182	609,993
Allowance for loan losses	(4,634)	(4,622)
Net loans	678,548	605,371
Accrued interest receivable	8,691	7,599
Equity investments in other Farm Credit institutions	12,082	11,972
Premises and equipment, net	2,929	2,929
Other property owned	77	78
Accounts receivable	6,025	15,379
Other assets	309	299
Total assets	\$ 712,981	\$ 647,983
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 587,473	\$ 522,972
Accrued interest payable	1,403	978
Patronage refunds payable	30	7,095
Accounts payable	950	811
Other liabilities	2,986	5,045
Total liabilities	592,842	536,901
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	1,574	1,616
Retained earnings		
Allocated	9,707	9,707
Unallocated	108,858	99,759
Total members' equity	120,139	111,082
Total liabilities and members' equity	\$ 712,981	\$ 647,983

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

Southwest Georgia Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
<i>(dollars in thousands)</i>				
Interest Income				
Loans	\$ 8,053	\$ 6,634	\$ 21,569	\$ 18,913
Investments	66	67	199	204
Total interest income	8,119	6,701	21,768	19,117
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	4,033	2,844	9,945	8,068
Net interest income	4,086	3,857	11,823	11,049
Provision for loan losses	—	—	—	—
Net interest income after provision for loan losses	4,086	3,857	11,823	11,049
Noninterest Income				
Loan fees	169	221	762	887
Fees for financially related services	17	—	18	4
Patronage refunds from other Farm Credit institutions	2,089	1,865	6,104	5,443
Gains (losses) on sales of premises and equipment, net	24	—	19	40
Gains (losses) on other transactions	—	—	26	—
Other noninterest income	—	11	34	31
Total noninterest income	2,299	2,097	6,963	6,405
Noninterest Expense				
Salaries and employee benefits	1,710	1,838	5,208	5,467
Occupancy and equipment	132	124	361	380
Insurance Fund premiums	276	198	773	560
Purchased services	204	164	598	606
Data processing	34	49	89	127
Other operating expenses	513	343	1,553	1,107
(Gains) losses on other property owned, net	(3)	—	33	64
Total noninterest expense	2,866	2,716	8,615	8,311
Net income	\$ 3,519	\$ 3,238	\$ 10,171	\$ 9,143
Other comprehensive income	—	—	—	—
Comprehensive income	\$ 3,519	\$ 3,238	\$ 10,171	\$ 9,143

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

Southwest Georgia Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
<i>(dollars in thousands)</i>		Allocated	Unallocated	
Balance at December 31, 2020	\$ 1,567	\$ 9,707	\$ 86,923	\$ 98,197
Comprehensive income			9,143	9,143
Patronage distribution adjustment			(17)	(17)
Balance at September 30, 2021	\$ 1,567	\$ 9,707	\$ 96,049	\$ 107,323
Balance at December 31, 2021	\$ 1,616	\$ 9,707	\$ 99,759	\$ 111,082
Comprehensive income			10,171	10,171
Capital stock/participation certificates issued/(retired), net	(42)			(42)
Patronage distribution adjustment			(1,072)	(1,072)
Balance at September 30, 2022	\$ 1,574	\$ 9,707	\$ 108,858	\$ 120,139

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

Southwest Georgia Farm Credit, 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 Southwest Georgia Farm Credit, 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 the year ended December 31, 2021, are contained in the 2021 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

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

Accounting Standards Effective During the Period

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

Note 2 — Loans and Allowance for Loan Losses

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

Credit risk arises from the failure of an obligor to meet the 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	\$ 370,976	\$ 359,478
Production and intermediate-term	183,951	161,049
Loans to cooperatives	1,841	1,717
Processing and marketing	81,315	56,441
Farm-related business	24,662	21,176
Communication	10,172	2,238
Power and water/waste disposal	370	545
Rural residential real estate	2,690	2,723
International	4,621	1,933
Lease receivables	2,584	2,693
Total loans	\$ 683,182	\$ 609,993

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	\$ 36,484	\$ 102,266	\$ —	\$ —	\$ —	\$ —	\$ 36,484	\$ 102,266
Production and intermediate-term	16,207	61,226	—	—	—	—	16,207	61,226
Loans to cooperatives	1,848	—	—	—	—	—	1,848	—
Processing and marketing	36,129	118,582	45,798	—	8,749	—	90,676	118,582
Farm-related business	2,985	459	—	931	—	—	2,985	1,390
Communication	10,198	—	—	—	—	—	10,198	—
Power and water/waste disposal	371	—	—	—	—	—	371	—
International	4,625	—	—	—	—	—	4,625	—
Lease receivables	—	—	2,585	—	—	—	2,585	—
Total	\$ 108,847	\$ 282,533	\$ 48,383	\$ 931	\$ 8,749	\$ —	\$ 165,979	\$ 283,464

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	\$ 30,394	\$ 112,306	\$ —	\$ —	\$ —	\$ —	\$ 30,394	\$ 112,306
Production and intermediate-term	12,884	68,133	—	—	—	—	12,884	68,133
Loans to cooperatives	1,725	—	—	—	—	—	1,725	—
Processing and marketing	19,434	101,220	40,360	—	8,981	—	68,775	101,220
Farm-related business	—	470	—	1,021	—	—	—	1,491
Communication	2,254	—	—	—	—	—	2,254	—
Power and water/waste disposal	547	—	—	—	—	—	547	—
International	1,936	—	—	—	—	—	1,936	—
Lease receivables	—	—	2,695	—	—	—	2,695	—
Total	\$ 69,174	\$ 282,129	\$ 43,055	\$ 1,021	\$ 8,981	\$ —	\$ 121,210	\$ 283,150

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:			Power and water/waste disposal:		
Acceptable	98.87%	98.63%	Acceptable	100.00%	100.00%
OAEM	0.72	1.05	OAEM	—	—
Substandard/doubtful/loss	0.41	0.32	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Rural residential real estate:		
Acceptable	96.09%	98.51%	Acceptable	92.11%	91.69%
OAEM	0.86	0.17	OAEM	—	—
Substandard/doubtful/loss	3.05	1.32	Substandard/doubtful/loss	7.89	8.31
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			International:		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Lease receivables:		
Acceptable	96.76%	95.67%	Acceptable	100.00%	100.00%
OAEM	0.35	—	OAEM	—	—
Substandard/doubtful/loss	2.89	4.33	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			Total loans:		
Acceptable	98.23%	100.00%	Acceptable	97.85%	98.36%
OAEM	—	—	OAEM	0.67	0.67
Substandard/doubtful/loss	1.77	—	Substandard/doubtful/loss	1.48	0.97
	100.00%	100.00%		100.00%	100.00%
Communication:					
Acceptable	100.00%	100.00%			
OAEM	—	—			
Substandard/doubtful/loss	—	—			
	100.00%	100.00%			

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	\$ 1,184	\$ 518	\$ 1,702	\$ 373,923	\$ 375,625	
Production and intermediate-term	2,415	47	2,462	184,739	187,201	
Loans to cooperatives	—	—	—	1,843	1,843	
Processing and marketing	—	2,027	2,027	79,844	81,871	
Farm-related business	—	—	—	24,799	24,799	
Communication	—	—	—	10,173	10,173	
Power and water/waste disposal	—	—	—	371	371	
Rural residential real estate	—	141	141	2,556	2,697	
International	—	—	—	4,626	4,626	
Lease receivables	—	—	—	2,593	2,593	
Total	\$ 3,599	\$ 2,733	\$ 6,332	\$ 685,467	\$ 691,799	

	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	\$ 752	\$ —	\$ 752	\$ 363,326	\$ 364,078	
Production and intermediate-term	274	—	274	163,161	163,435	
Loans to cooperatives	—	—	—	1,718	1,718	
Processing and marketing	—	2,125	2,125	54,754	56,879	
Farm-related business	—	—	—	21,296	21,296	
Communication	—	—	—	2,238	2,238	
Power and water/waste disposal	—	—	—	545	545	
Rural residential real estate	150	77	227	2,504	2,731	
International	—	—	—	1,935	1,935	
Lease receivables	—	—	—	2,703	2,703	
Total	\$ 1,176	\$ 2,202	\$ 3,378	\$ 614,180	\$ 617,558	

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	\$ 2,693	\$ 635
Production and intermediate-term	4,500	1,082
Processing and marketing	2,366	2,464
Farm-related business	440	—
Rural residential real estate	213	77
Total	<u>\$ 10,212</u>	<u>\$ 4,258</u>
Accruing restructured loans:		
Real estate mortgage	\$ 1,150	\$ 1,183
Production and intermediate-term	37	—
Total	<u>\$ 1,187</u>	<u>\$ 1,183</u>
Accruing loans 90 days or more past due:		
Total	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	\$ 11,399	\$ 5,441
Other property owned	77	78
Total nonperforming assets	<u>\$ 11,476</u>	<u>\$ 5,519</u>
Nonaccrual loans as a percentage of total loans	1.49%	0.70%
Nonperforming assets as a percentage of total loans and other property owned	1.68%	0.90%
Nonperforming assets as a percentage of capital	<u>9.55%</u>	<u>4.97%</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	\$ 5,142	\$ 1,840
Past due	5,070	2,418
Total	<u>\$ 10,212</u>	<u>\$ 4,258</u>
Impaired accrual loans:		
Restructured	\$ 1,187	\$ 1,183
90 days or more past due	—	—
Total	<u>\$ 1,187</u>	<u>\$ 1,183</u>
Total impaired loans	<u>\$ 11,399</u>	<u>\$ 5,441</u>
Additional commitments to lend	<u>\$ 2</u>	<u>\$ 17</u>

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

	September 30, 2022			Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
Impaired loans:	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	\$ 1	\$ 1	\$ 1	\$ 1	\$ —	\$ —	\$ —
Production and intermediate-term	112	191	2	113	—	75	1
Processing and marketing	—	—	—	—	—	—	—
Farm-related business	—	—	—	—	—	—	—
Rural residential real estate	—	—	—	—	—	—	—
Total	<u>\$ 113</u>	<u>\$ 192</u>	<u>\$ 3</u>	<u>\$ 114</u>	<u>\$ —</u>	<u>\$ 75</u>	<u>\$ 1</u>
With no related allowance for credit losses:							
Real estate mortgage	\$ 3,842	\$ 4,015	\$ —	\$ 3,867	\$ —	\$ 2,558	\$ 27
Production and intermediate-term	4,425	5,132	—	4,455	—	2,946	31
Processing and marketing	2,366	2,474	—	2,382	—	1,575	17
Farm-related business	440	450	—	443	—	293	3
Rural residential real estate	213	240	—	214	—	142	1
Total	<u>\$ 11,286</u>	<u>\$ 12,311</u>	<u>\$ —</u>	<u>\$ 11,361</u>	<u>\$ —</u>	<u>\$ 7,514</u>	<u>\$ 79</u>
Total impaired loans:							
Real estate mortgage	\$ 3,843	\$ 4,016	\$ 1	\$ 3,868	\$ —	\$ 2,558	\$ 27
Production and intermediate-term	4,537	5,323	2	4,568	—	3,021	32
Processing and marketing	2,366	2,474	—	2,382	—	1,575	17
Farm-related business	440	450	—	443	—	293	3
Rural residential real estate	213	240	—	214	—	142	1
Total	<u>\$ 11,399</u>	<u>\$ 12,503</u>	<u>\$ 3</u>	<u>\$ 11,475</u>	<u>\$ —</u>	<u>\$ 7,589</u>	<u>\$ 80</u>

	December 31, 2021			Year Ended December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
Impaired loans:						
With a related allowance for credit losses:						
Real estate mortgage	\$ 1,137	\$ 1,125	\$ 28	\$ 798	\$ 15	
Production and intermediate-term	154	233	8	108	2	
Processing and marketing	—	—	—	—	—	
Rural residential real estate	—	—	—	—	—	
Total	\$ 1,291	\$ 1,358	\$ 36	\$ 906	\$ 17	
With no related allowance for credit losses:						
Real estate mortgage	\$ 681	\$ 922	\$ —	\$ 478	\$ 9	
Production and intermediate-term	928	1,655	—	652	12	
Processing and marketing	2,464	2,474	—	1,730	32	
Rural residential real estate	77	90	—	54	\$ 1	
Total	\$ 4,150	\$ 5,141	\$ —	\$ 2,914	54	
Total impaired loans:						
Real estate mortgage	\$ 1,818	\$ 2,047	\$ 28	\$ 1,276	\$ 24	
Production and intermediate-term	1,082	1,888	8	760	14	
Processing and marketing	2,464	2,474	—	1,730	32	
Rural residential real estate	77	90	—	54	\$ 1	
Total	\$ 5,441	\$ 6,499	\$ 36	\$ 3,820	71	

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	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:									
Balance at June 30, 2022	\$ 2,650	\$ 1,180	\$ 661	\$ 64	\$ 3	\$ 18	\$ 14	\$ 19	\$ 4,609
Charge-offs	11	(1)	—	—	—	—	—	—	10
Recoveries	—	15	—	—	—	—	—	—	15
Provision for loan losses	(131)	52	59	5	—	(1)	17	(1)	—
Balance at September 30, 2022	\$ 2,530	\$ 1,246	\$ 720	\$ 69	\$ 3	\$ 17	\$ 31	\$ 18	\$ 4,634
Balance at December 31, 2021	\$ 2,732	\$ 1,222	\$ 593	\$ 17	\$ 4	\$ 20	\$ 14	\$ 20	\$ 4,622
Charge-offs	(26)	(11)	(9)	—	—	—	—	—	(46)
Recoveries	13	45	—	—	—	—	—	—	58
Provision for loan losses	(189)	(10)	136	52	(1)	(3)	17	(2)	—
Balance at September 30, 2022	\$ 2,530	\$ 1,246	\$ 720	\$ 69	\$ 3	\$ 17	\$ 31	\$ 18	\$ 4,634
Balance at June 30, 2021	\$ 2,974	\$ 1,398	\$ 506	\$ 33	\$ 3	\$ 23	\$ 19	\$ 13	\$ 4,969
Charge-offs	—	(47)	—	—	—	—	—	—	(47)
Recoveries	—	4	—	—	—	1	—	—	5
Provision for loan losses	(118)	59	80	(15)	2	(3)	(4)	(1)	—
Balance at September 30, 2021	\$ 2,856	\$ 1,414	\$ 586	\$ 18	\$ 5	\$ 21	\$ 15	\$ 12	\$ 4,927
Balance at December 31, 2020	\$ 2,903	\$ 1,407	\$ 545	\$ 36	\$ 4	\$ 34	\$ 17	\$ 13	\$ 4,959
Charge-offs	(23)	(47)	—	—	—	—	—	—	(70)
Recoveries	—	37	—	—	—	1	—	—	38
Provision for loan losses	(24)	17	41	(18)	1	(14)	(2)	(1)	—
Balance at September 30, 2021	\$ 2,856	\$ 1,414	\$ 586	\$ 18	\$ 5	\$ 21	\$ 15	\$ 12	\$ 4,927
Allowance on loans evaluated for impairment:									
Individually	\$ 1	\$ 2	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3
Collectively	2,529	1,244	720	69	3	17	31	18	4,631
Balance at September 30, 2022	\$ 2,530	\$ 1,246	\$ 720	\$ 69	\$ 3	\$ 17	\$ 31	\$ 18	\$ 4,634
Individually	\$ 28	\$ 8	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 36
Collectively	2,704	1,214	593	17	4	20	14	20	4,586
Balance at December 31, 2021	\$ 2,732	\$ 1,222	\$ 593	\$ 17	\$ 4	\$ 20	\$ 14	\$ 20	\$ 4,622
Recorded investment in loans evaluated for impairment:									
Individually	\$ 3,843	\$ 4,537	\$ 2,806	\$ —	\$ —	\$ 213	\$ —	\$ —	\$ 11,399
Collectively	371,782	182,664	105,707	10,173	371	2,484	4,626	2,593	680,400
Balance at September 30, 2022	\$ 375,625	\$ 187,201	\$ 108,513	\$ 10,173	\$ 371	\$ 2,697	\$ 4,626	\$ 2,593	\$ 691,799
Individually	\$ 1,818	\$ 1,082	\$ 2,464	\$ —	\$ —	\$ 77	\$ —	\$ —	\$ 5,441
Collectively	362,260	162,353	77,429	2,238	545	2,654	1,935	2,703	612,117
Balance at December 31, 2021	\$ 364,078	\$ 163,435	\$ 79,893	\$ 2,238	\$ 545	\$ 2,731	\$ 1,935	\$ 2,703	\$ 617,558

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

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

Three Months Ended September 30, 2022					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ —	\$ 37	\$ —	\$ 37	
Total	\$ —	\$ 37	\$ —	\$ 37	
Post-modification:					
Production and intermediate-term	\$ —	\$ 37	\$ —	\$ 37	\$ —
Total	\$ —	\$ 37	\$ —	\$ 37	\$ —

Nine Months Ended September 30, 2022					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ —	\$ 620	\$ —	\$ 620	
Production and intermediate-term	—	9,548	—	9,548	
Processing and marketing	—	2,124	—	2,124	
Rural residential real estate	—	77	—	77	
Total	\$ —	\$ 12,369	\$ —	\$ 12,369	
Post-modification:					
Real estate mortgage	\$ —	\$ 620	\$ —	\$ 620	\$ (3)
Production and intermediate-term	—	9,548	—	9,548	—
Processing and marketing	—	2,124	—	2,124	—
Rural residential real estate	—	76	—	76	—
Total	\$ —	\$ 12,368	\$ —	\$ 12,368	\$ (3)

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

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

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
Real estate mortgage	\$ 1,397	\$ 1,336	\$ 247	\$ 153
Production and intermediate-term	2,397	225	2,360	225
Processing and marketing	2,027	—	2,027	—
Rural residential real estate	72	—	72	—
Total loans	\$ 5,893	\$ 1,561	\$ 4,706	\$ 378
Additional commitments to lend	\$ —	\$ —		

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9, and requires System institutions to provide notification to FCA when a security becomes ineligible. Any new bonds purchased under

the MRI program are approved on a case-by-case basis by FCA and may have different eligibility requirements. At September 30, 2022, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	September 30, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 4,318	\$ 37	\$ (125)	\$ 4,230	6.13%

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 4,354	\$ 843	\$ —	\$ 5,197	6.13%

A summary of contractual maturity, amortized cost, and estimated fair value of investment securities held-to-maturity follows:

	September 30, 2022		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ —	\$ —	—%
After one year through five years	—	—	—
After five years through ten years	—	—	—
After ten years	4,318	4,230	6.13
Total	\$ 4,318	\$ 4,230	6.13%

All of these investments have contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. There were no investments in a continuous unrealized loss position at December 31, 2021.

	September 30, 2022			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ 2,410	\$ (125)	\$ —	\$ —

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment

securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

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 4.26 percent of the issued stock of the Bank as of September 30, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled \$41.7 billion and shareholders' equity totaled \$1.6 billion. The Bank's earnings were \$313 million for the first nine months of 2022. In addition, the Association held investments of \$1,146 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Fair Value Measurement

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

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on

market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	September 30, 2022				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>					
Assets:					
Assets held in trust funds	\$ 265	\$ 265	\$ –	\$ –	\$ 265
Recurring Assets	\$ 265	\$ 265	\$ –	\$ –	\$ 265
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>					
Assets:					
Impaired loans	\$ 110	\$ –	\$ –	\$ 110	\$ 110
Other property owned	77	–	–	79	79
Nonrecurring Assets	\$ 187	\$ –	\$ –	\$ 189	\$ 189
<u>Other Financial Instruments</u>					
Assets:					
Cash	\$ 2	\$ 2	\$ –	\$ –	\$ 2
Investments in debt securities, held-to-maturity	4,318	–	–	4,230	4,230
Loans	678,438	–	–	630,401	630,401
Other Financial Assets	\$ 682,758	\$ 2	\$ –	\$ 634,631	\$ 634,633
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 587,473	\$ –	\$ –	\$ 548,498	\$ 548,498
Other Financial Liabilities	\$ 587,473	\$ –	\$ –	\$ 548,498	\$ 548,498

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	\$ 230	\$ 230	\$ –	\$ –	\$ 230
Recurring Assets	\$ 230	\$ 230	\$ –	\$ –	\$ 230
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>					
Assets:					
Impaired loans	\$ 1,255	\$ –	\$ –	\$ 1,255	\$ 1,255
Other property owned	78	–	–	83	83
Nonrecurring Assets	\$ 1,333	\$ –	\$ –	\$ 1,338	\$ 1,338
<u>Other Financial Instruments</u>					
Assets:					
Cash	\$ 2	\$ 2	\$ –	\$ –	\$ 2
Investments in debt securities, held-to-maturity	4,354	–	–	5,197	5,197
Loans	604,116	–	–	596,605	596,605
Other Financial Assets	\$ 608,472	\$ 2	\$ –	\$ 601,802	\$ 601,804
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 522,972	\$ –	\$ –	\$ 519,046	\$ 519,046
Other Financial Liabilities	\$ 522,972	\$ –	\$ –	\$ 519,046	\$ 519,046

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.

Investments in Debt Securities

The fair values of predominantly all Level 3 investments in debt securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities. These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

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
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk-adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 6 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Pension	\$ 80	\$ 194	\$ 240	\$ 583
401(k)	83	82	310	301
Other postretirement benefits	36	33	100	100
Total	\$ 199	\$ 309	\$ 650	\$ 984

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

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

Note 7 — Commitments and Contingent Liabilities

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

Note 8 — Subsequent Events

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