*AgCredit Agricultural Credit Association*

# THIRD QUARTER 2022

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**CERTIFICATION**

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

Brian J. Ricker
Chief Executive Officer

Logan W. Kreais
Chief Financial Officer

Dustin J. Sonnenberg
Chairman of the Board

November 8, 2022

*AgCredit Agricultural Credit Association*

# 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, to provide 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 and 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 changes to or weaknesses in the internal control over financial reporting as of September 30, 2022.

Brian J. Ricker
Chief Executive Officer

Logan W. Kreais
Chief Financial Officer

November 8, 2022

*AgCredit Agricultural Credit Association*

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

The following commentary reviews the financial condition and results of operations of AgCredit Agricultural Credit Association (Association) for the nine months ended September 30, 2022. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, the Association's September 30, 2021 quarterly report, and the 2021 Annual Report of the Association. The accompanying consolidated financial statements (financial statements) were prepared under the oversight of the Audit Committee of the Board of Directors, which includes Gary L. Baldosser, David M. Stott, Ph.D., CPA, and Kevin P. Flanagan. The results for the nine months of 2022 are not necessarily indicative of results to be expected for the year.

**LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types. The Association's loan portfolio consists predominantly of grains (primarily soybeans, corn, and wheat), livestock, and landlords, which constitute 75 percent of the entire portfolio as of September 30, 2022. The Association recognizes the commodity concentration risk exceeds normally accepted industry standards. This risk, along with the risk associated with large loans, is reduced by members' off-farm income, utilization of crop insurance, and the use of FSA, USDA, Business and Industry, SBA, and Farmer Mac loan guarantees. As of September 30, 2022, the Association had $809,032 of guaranteed loan volume, which is 29.47 percent of loans as compared to $670,899 of guaranteed volume or 28.50 percent of the portfolio at September 30, 2021. Loan guarantees reduce the potential of loss in the Association's loan portfolio and help to leverage the Association's capital.

Gross loan volume of the Association as of September 30, 2022 was $2,745,656 an increase of $167,189 or 6.48 percent when compared to $2,578,467 at December 31, 2021. The increase in loan volume primarily relates to increases in real estate mortgage, processing and marketing, and other loan volume partially offset by a decrease in production and intermediate (PRIT).

From September 30, 2021 to September 30, 2022, volume increased by $391,299 or 16.62 percent. The increase in loan volume primarily relates to increases in real estate mortgage, processing and marketing, PRIT, and other loan volume.

Net loans outstanding at September 30, 2022 were $2,737,940 as compared to $2,571,162 at December 31, 2021. Net loans accounted for 96.62 percent of total assets at September 30, 2022 as compared to 95.92 percent at December 31, 2021.

The following table summarizes the Association's risk assets (accruing volume includes accrued interest receivable):

| | 9/30/2022 | 12/31/2021 |
|---|---|---|
| Nonaccrual loans | $ 3,173 | $ 4,605 |
| Accruing restructured loans | 527 | 650 |
| Accruing loans 90 days or more past due | 1,040 | – |
| Total high-risk loans | 4,740 | 5,255 |
| Other property owned | – | – |
| Total high-risk assets | $ 4,740 | $ 5,255 |
| | | |
| Ratios: | | |
| Nonaccrual loans to total loans | 0.12% | 0.18% |
| High-risk assets to total assets | 0.17% | 0.20% |

High-risk assets decreased during the first nine months of 2022 primarily as a result of a decrease in nonaccrual loans and accruing restructured loans partially offset by an increase in accruing loans 90 days or more past due.

There is an inherent risk in the extension of any type of credit, and accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio.

General portfolio credit quality improved slightly for the first nine months of 2022 when compared to December 31, 2021, and remains at an acceptable level. Credit administration is satisfactory.

During the first nine months of 2022 the Association recorded no charge-offs or recoveries and a provision for loan losses of $411. The provision is primarily a result of volume growth. For the same period of 2021, the Association recorded charge-offs of $8, recoveries of $985, and a reversal of allowance for loan loss (reversal) of $2,310. The allowance for loan losses represented 0.28 percent and 0.28 percent of loans at September 30, 2022 and December 31, 2021, respectively.

## RESULTS OF OPERATIONS

***For the three months ending September 30, 2022***

Net income for the three months ended September 30, 2022 (Q3 2022) was $12,263, a decrease of $2,520 or 17.05 percent when compared to the net income of $14,783 for the same period in 2021 (Q3 2021). Major changes in the components of net income when comparing Q3 2022 to Q3 2021 are identified as follows:

- Net interest income decreased by $2,654 or 15.22 percent primarily due to no PPP fee amortization in 2022 as compared to 2021 partially offset by increased earnings on our own funds.

- Provision for loan losses increased by $652 due to an increase in the allowance for loan losses in 2022 as compared to 2021 primarily related to volume growth.

- Noninterest income increased by $1,142 or 25.43 percent for the following reasons:

  Patronage refund from other Farm Credit institutions (patronage refunds) increased by $1,126 primarily as a result of an increase related to higher general patronage and higher participation sold patronage due to increased average daily balances (ADB).

  Loan fees increased by $59 due to an increase in fees generated from participations purchased partially offset by decrease in fees paid on participations sold.

  Fees for financially related services increased by $15 due to increases in appraisal services and crop hail insurance partially offset by decreases in multi-peril insurance and credit life insurance.

  Gains (losses) on other transactions decreased $69 due to the gain on sale of 100% Guaranteed Purchase loans in 2021 as well as a reduction in the value of the NQ401K Rabbi Trust in 2022.

- Noninterest expense increased by $344 or 5.05 percent primarily due to:

  Insurance fund premiums increased by $251 or 46.92 percent due to increased average volume and a retroactive increase in the rate from 16 to 20 basis points.

  Other operating expenses increased by $316 or 41.97 percent due to increased travel, public member relations, advertising, and directors expense costs offset by a decrease to training, printing, and office supplies.

  Data Processing increased by $57 or 44.88 percent primarily due to the purchase of new laptops, monitors, and tablets to replace old equipment.

  Occupancy and equipment increased by $28 or 11.02 percent due to an increase to cost of space and furniture and equipment.

  Salary and benefits expense decreased by $47 or 1.03 percent primarily due to decreases in discretionary incentives and pension costs partially offset by increased expenses related to scheduled salary increases, increased annual incentives, additional employees, health insurance, and employment tax costs as well as a decrease in deferred origination costs.

  Guarantee fees decreased by $172 or 43.54 percent due to a decrease in new loan guarantees.

  Purchased services decreased by $88 or 44.90 percent due to no temporary staff for PPP loans in 2022.

***For the nine months ending September 30, 2022***

Net income for the nine months ended September 30, 2022 (YTD 2022) was $36,365 which is a decrease of $5,282 or 12.68 percent when compared to the net income of $41,647 for the same period in 2021 (YTD 2021). Major changes in the components of net income when comparing YTD 2022 to YTD 2021 are identified as follows:

- Net interest income decreased by $4,152 or 8.93 percent. The decrease resulted primarily due to no PPP fee amortization in 2022 as compared to 2021 partially offset by increased earnings on our own funds.

- The risks identified in the portfolio at September 30, 2022 and September 30, 2021 resulted in an increase of the provision for loan loss of $2,721. The increase was due to a provision for loan losses for 2022 of $411 primarily related to loan growth compared to a reversal of allowance for loan losses of $2,310 in 2021. The allowance factors are reviewed regularly and periodically adjusted based on loss experience, industry data, and management's estimates.

- Noninterest income increased by $2,889 or 21.81 percent primarily due to a $3,552 increase in patronage dividends offset by a $663 decrease in gains (losses) on other transactions, and a $24 decrease in loan fees.

- Noninterest expense increased by $1,266 or 6.22 percent primarily due to a $224 increase in expenses for salary and benefits, $51 increase in occupancy and equipment, $722 increase in insurance fund premiums, $147 increase to data processing, and $661 increase in other operating expense partially offset by a $316 decrease in guarantee fees and a $222 decrease in purchased services.

The following table shows the key results of operations ratios for the nine months ended September 30, 2022 and September 30, 2021, respectively.

| | 9/30/2022 | 9/30/2021 |
|---|---|---|
| Return on average assets | 1.80% | 2.41% |
| Return on average equity | 10.69% | 13.49% |
| Net interest margin | 2.14% | 2.75% |
| Members' equity to assets | 16.66% | 17.81% |
| Debt to members' equity (:1) | 5.00 | 4.61 |

## CAPITAL RESOURCES

Total members' equity was $472,113 at September 30, 2022 as compared to $436,096 at December 31, 2021 for an increase of $36,017 or 8.26 percent. The increase is due primarily to 2022 year-to-date earnings.

The Association's capital ratios as of September 30 along with FCA minimum requirements are included in the following regulatory matters section.

### *Regulatory Capital Ratios*

The Association's regulatory ratios are shown in the following table:

| | Regulatory Minimum, Including Buffer | 9/30/2022 | 12/31/2021 | 9/30/2021 |
|---|---|---|---|---|
| Permanent Capital Ratio | 7.00% | 20.45% | 20.76% | 21.31% |
| Common Equity Tier 1 (CET1) Capital Ratio | 7.00% | 19.94% | 20.20% | 20.72% |
| Tier 1 Capital Ratio | 8.50% | 19.94% | 20.20% | 20.72% |
| Total Capital Ratio | 10.50% | 20.25% | 20.58% | 21.10% |
| Tier 1 Leverage Ratio | 5.00% | 15.57% | 15.99% | 16.57% |
| Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio | 1.50% | 15.28% | 16.38% | 16.98% |

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. The requirements are based on regulatory ratios as defined by the FCA and include common equity tier 1 (CET1), tier 1, total capital, permanent capital, tier 1 leverage, and unallocated retained earnings (URE) and URE equivalents leverage ratios.

The permanent capital, CET1, tier 1, and total capital ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by a risk-adjusted asset base. Unlike these ratios, the tier 1 leverage and URE and URE equivalents leverage ratios do not incorporate any risk-adjusted weighting of assets. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. The tier 1 leverage and URE and URE equivalents leverage ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions.

For all periods presented, AgCredit exceeded minimum regulatory standards for all of the ratios. The Association's capital ratios continued to be strong as of September 30, 2022 compared to December 31, 2021 and September 30, 2021. See Regulatory Matters section below for further discussion of capital ratios.

## LIBOR Transition

The Association has exposure to LIBOR arising from loans made to customers.

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:

| *(dollars in millions)* | Due in 2022 | Due in 2023 and Thereafter | Total |
|---|---|---|---|
| Loans | $ 10 | $ 33,027 | $ 33,037 |
| Total assets | $ 10 | $ 33,027 | $ 33,037 |
| Note payable to AgFirst Farm Credit Bank | $ 8 | $ 28,012 | $ 28,020 |
| Total liabilities | $ 8 | $ 28,012 | $ 28,020 |

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after December 31, 2022 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 |
|---|---|
| ***ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*** | |
| • 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.<br>• Changes the present incurred loss impairment guidance for loans to an expected loss model.<br>• 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.<br>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.<br>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.<br>• 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.<br>• The new guidance is expected to result in a change in allowance for credit losses due to several factors, including:<br>1. 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,<br>2. An allowance will be established for estimated credit losses on any debt securities,<br>3. 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.<br>• 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.<br>• The guidance is expected to be adopted January 1, 2023. |
| ***ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*** | |
| • This Update responds to feedback received during the Post Implementation Review process conducted by the FASB related to Topic 326.<br>Troubled Debt Restructurings (TDRs) by Creditors<br>• 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.<br>Vintage Disclosures—Gross Writeoffs<br>• 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. |

| *ASU 2022-03—Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions* | |
|---|---|
| • 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.<br>• 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.<br>• 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.<br>• For all entities except investment companies, the Update should be applied prospectively with any adjustments from adoption recognized in earnings.<br>• Early adoption is permitted. |

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

Copies of the Association's Quarterly and Annual Reports are available on the Association's website, www.agcredit.net, or may be obtained upon request free of charge by calling 1-800-837-3678, extension 1048, or writing Logan Kreais, Chief Financial Officer, AgCredit, ACA, 610 W Lytle Street, Fostoria, OH 44830. The Association prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

# AgCredit Agricultural Credit Association

# Consolidated Balance Sheets

| *(dollars in thousands)* | September 30, 2022 *(unaudited)* | December 31, 2021 *(audited)* |
|---|---|---|
| **Assets** | | |
| Cash | **$ 44** | $ 29 |
| Investments in debt securities: | | |
| Held to maturity (fair value of $5,361 and $7,408, respectively) | **5,804** | 6,916 |
| Loans | **2,745,656** | 2,578,467 |
| Allowance for loan losses | **(7,716)** | (7,305) |
| Net loans | **2,737,940** | 2,571,162 |
| Other investments | **2,786** | 2,105 |
| Accrued interest receivable | **40,948** | 26,548 |
| Equity investments in other Farm Credit institutions | **20,927** | 20,889 |
| Premises and equipment, net | **7,666** | 7,896 |
| Accounts receivable | **15,310** | 43,109 |
| Other assets | **2,160** | 1,773 |
| Total assets | **$ 2,833,585** | $ 2,680,427 |
| **Liabilities** | | |
| Notes payable to AgFirst Farm Credit Bank | **$ 2,341,516** | $ 2,194,319 |
| Accrued interest payable | **5,125** | 3,766 |
| Patronage refunds payable | **81** | 33,117 |
| Accounts payable | **2,862** | 2,748 |
| Advanced conditional payments | **2,157** | 1,247 |
| Other liabilities | **9,731** | 9,134 |
| Total liabilities | **2,361,472** | 2,244,331 |
| Commitments and contingencies (Note 7) | | |
| **Members' Equity** | | |
| Capital stock and participation certificates | **16,870** | 17,498 |
| Retained earnings | | |
| Allocated | **309,160** | 308,056 |
| Unallocated | **146,083** | 110,542 |
| Total members' equity | **472,113** | 436,096 |
| Total liabilities and members' equity | **$ 2,833,585** | $ 2,680,427 |

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

## AgCredit Agricultural Credit Association

# Consolidated Statements of Comprehensive Income

*(unaudited)*

| *(dollars in thousands)* | For the Three Months Ended September 30, 2022 | For the Three Months Ended September 30, 2021 | For the Nine Months Ended September 30, 2022 | For the Nine Months Ended September 30, 2021 |
|---|---|---|---|---|
| **Interest Income** | | | | |
| Loans | **$ 29,672** | $ 27,440 | **$ 81,187** | $ 75,255 |
| Investments | **75** | 99 | **245** | 338 |
| Total interest income | **29,747** | 27,539 | **81,432** | 75,593 |
| **Interest Expense** | | | | |
| Notes payable to AgFirst Farm Credit Bank | **14,969** | 10,107 | **39,097** | 29,106 |
| Net interest income | **14,778** | 17,432 | **42,335** | 46,487 |
| Provision for (reversal of) allowance for loan losses | **954** | 302 | **411** | (2,310) |
| Net interest income after provision for (reversal of) allowance for loan losses | **13,824** | 17,130 | **41,924** | 48,797 |
| **Noninterest Income** | | | | |
| Loan fees | **212** | 153 | **442** | 466 |
| Fees for financially related services | **122** | 107 | **182** | 164 |
| Lease income | **52** | 52 | **155** | 155 |
| Patronage refunds from other Farm Credit institutions | **5,252** | 4,126 | **15,453** | 11,901 |
| Gains (losses) on sales of premises and equipment, net | **—** | — | **—** | 3 |
| Gains (losses) on other transactions | **(30)** | 39 | **(158)** | 505 |
| Other noninterest income | **24** | 13 | **62** | 53 |
| Total noninterest income | **5,632** | 4,490 | **16,136** | 13,247 |
| **Noninterest Expense** | | | | |
| Salaries and employee benefits | **4,505** | 4,552 | **13,393** | 13,169 |
| Occupancy and equipment | **282** | 254 | **952** | 901 |
| Insurance Fund premiums | **786** | 535 | **2,277** | 1,555 |
| Guarantee fees | **223** | 395 | **1,005** | 1,321 |
| Purchased services | **108** | 196 | **446** | 668 |
| Data processing | **184** | 128 | **591** | 444 |
| Other operating expenses | **1,069** | 752 | **2,965** | 2,304 |
| (Gains) losses on other property owned, net | **—** | 1 | **—** | 1 |
| Total noninterest expense | **7,157** | 6,813 | **21,629** | 20,363 |
| Income before income taxes | **12,299** | 14,807 | **36,431** | 41,681 |
| Provision for income taxes | **36** | 24 | **66** | 34 |
| **Net income** | **$ 12,263** | $ 14,783 | **$ 36,365** | $ 41,647 |
| Other comprehensive income | **—** | — | **—** | — |
| **Comprehensive income** | **$ 12,263** | $ 14,783 | **$ 36,365** | $ 41,647 |

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

## AgCredit Agricultural Credit Association

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

| *(dollars in thousands)* | Capital Stock and Participation Certificates | Retained Earnings Allocated | Retained Earnings Unallocated | Total Members' Equity |
|---|---|---|---|---|
| Balance at December 31, 2020 | $ 18,516 | $ 273,955 | $ 99,659 | $ 392,130 |
| Comprehensive income | | | 41,647 | 41,647 |
| Capital stock/participation certificates issued/(retired), net | (1,018) | | | (1,018) |
| Dividends declared/paid | | | (43) | (43) |
| Patronage distribution adjustment | | 570 | 152 | 722 |
| Balance at September 30, 2021 | $ 17,498 | $ 274,525 | $ 141,415 | $ 433,438 |
| **Balance at December 31, 2021** | **$ 17,498** | **$ 308,056** | **$ 110,542** | **$ 436,096** |
| **Comprehensive income** | | | **36,365** | **36,365** |
| **Capital stock/participation certificates issued/(retired), net** | **(628)** | | | **(628)** |
| **Dividends declared/paid** | | | **(48)** | **(48)** |
| **Patronage distribution adjustment** | | **1,104** | **(776)** | **328** |
| **Balance at September 30, 2022** | **$ 16,870** | **$ 309,160** | **$ 146,083** | **$ 472,113** |

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

*AgCredit Agricultural Credit Association*

# 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 AgCredit Agricultural Credit Association 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 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 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 | $ 1,682,011 | $ 1,564,379 |
| Production and intermediate-term | 551,847 | 612,288 |
| Loans to cooperatives | 6,961 | 6,433 |
| Processing and marketing | 130,751 | 93,326 |
| Farm-related business | 39,567 | 40,032 |
| Communication | 13,366 | 7,419 |
| Power and water/waste disposal | 402 | – |
| Rural residential real estate | 131,155 | 129,276 |
| International | 5,878 | – |
| Lease receivables | 1,393 | 616 |
| Other (including Mission Related) | 182,325 | 124,698 |
| Total loans | $ 2,745,656 | $ 2,578,467 |

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 | $ 21,503 | $ 218,755 | $ – | $ 13,671 | $ 108,327 | $ – | $ 129,830 | $ 232,426 |
| Production and intermediate-term | 30,000 | 127,256 | – | 3,125 | 7,651 | – | 37,651 | 130,381 |
| Loans to cooperatives | 6,977 | – | – | – | – | – | 6,977 | – |
| Processing and marketing | 88,786 | 34,103 | – | – | 615 | – | 89,401 | 34,103 |
| Farm-related business | 4,988 | 28,913 | – | – | 171 | – | 5,159 | 28,913 |
| Communication | 13,401 | – | – | – | – | – | 13,401 | – |
| Power and water/waste disposal | 402 | – | – | – | – | – | 402 | – |
| Lease receivables | – | – | 629 | – | 116 | – | 745 | – |
| International | 5,883 | – | – | – | – | – | 5,883 | – |
| Other (including Mission Related) | – | – | – | – | 165,501 | – | 165,501 | – |
| Total | $ 171,940 | $ 409,027 | $ 629 | $ 16,796 | $ 282,381 | $ – | $ 454,950 | $ 425,823 |

| 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 | $ 28,427 | $ 163,674 | $ – | $ 12,920 | $ 102,019 | $ – | $ 130,446 | $ 176,594 |
| Production and intermediate-term | 27,630 | 112,050 | 547 | 4,501 | 10,815 | – | 38,992 | 116,551 |
| Loans to cooperatives | 6,453 | – | – | – | – | – | 6,453 | – |
| Processing and marketing | 60,769 | 19,020 | – | – | 627 | – | 61,396 | 19,020 |
| Farm-related business | – | 30,578 | – | – | 187 | – | 187 | 30,578 |
| Communication | 7,458 | – | – | – | – | – | 7,458 | – |
| Lease receivables | – | – | – | – | 151 | – | 151 | – |
| Other (including Mission Related) | – | – | – | – | 113,295 | – | 113,295 | – |
| Total | $ 130,737 | $ 325,322 | $ 547 | $ 17,421 | $ 227,094 | $ – | $ 358,378 | $ 342,743 |

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 |
|---|---|---|
| **Real estate mortgage:** | | |
| Acceptable | 96.13% | 94.55% |
| OAEM | 0.87 | 1.96 |
| Substandard/doubtful/loss | 3.00 | 3.49 |
| | 100.00% | 100.00% |
| **Production and intermediate-term:** | | |
| Acceptable | 95.57% | 93.39% |
| OAEM | 2.46 | 3.98 |
| Substandard/doubtful/loss | 1.97 | 2.63 |
| | 100.00% | 100.00% |
| **Loans to cooperatives:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Processing and marketing:** | | |
| Acceptable | 92.72% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | 7.28 | – |
| | 100.00% | 100.00% |
| **Farm-related business:** | | |
| Acceptable | 96.55% | 96.38% |
| OAEM | 0.44 | 1.19 |
| Substandard/doubtful/loss | 3.01 | 2.43 |
| | 100.00% | 100.00% |
| **Communication:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| **Power and water/waste disposal:** | | |
| Acceptable | 100.00% | –% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | –% |
| **Rural residential real estate:** | | |
| Acceptable | 97.58% | 97.10% |
| OAEM | 1.64 | 1.80 |
| Substandard/doubtful/loss | 0.78 | 1.10 |
| | 100.00% | 100.00% |
| **International:** | | |
| Acceptable | 100.00% | –% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | –% |
| **Lease receivables:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Other (including Mission Related)** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Total loans:** | | |
| Acceptable | 96.22% | 94.92% |
| OAEM | 1.12 | 2.24 |
| Substandard/doubtful/loss | 2.66 | 2.84 |
| | 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 | $ 7,758 | $ 1,198 | $ 8,956 | $ 1,702,825 | $ 1,711,781 |
| Production and intermediate-term | 51 | 72 | 123 | 560,884 | 561,007 |
| Loans to cooperatives | – | – | – | 6,973 | 6,973 |
| Processing and marketing | – | – | – | 131,093 | 131,093 |
| Farm-related business | 21 | – | 21 | 39,897 | 39,918 |
| Communication | – | – | – | 13,368 | 13,368 |
| Power and water/waste disposal | – | – | – | 402 | 402 |
| Rural residential real estate | 147 | 241 | 388 | 131,146 | 131,534 |
| International | – | – | – | 5,878 | 5,878 |
| Lease receivables | – | – | – | 1,398 | 1,398 |
| Other (including Mission Related) | – | – | – | 182,938 | 182,938 |
| Total | $ 7,977 | $ 1,511 | $ 9,488 | $ 2,776,802 | $ 2,786,290 |

| | 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 | $ 8,628 | $ 2,847 | $ 11,475 | $ 1,571,114 | $ 1,582,589 |
| Production and intermediate-term | 1,538 | 251 | 1,789 | 617,414 | 619,203 |
| Loans to cooperatives | – | – | – | 6,439 | 6,439 |
| Processing and marketing | – | – | – | 93,485 | 93,485 |
| Farm-related business | 276 | – | 276 | 39,983 | 40,259 |
| Communication | – | – | – | 7,419 | 7,419 |
| Rural residential real estate | 557 | 87 | 644 | 128,926 | 129,570 |
| Lease receivables | – | – | – | 621 | 621 |
| Other (including Mission Related) | 2,843 | – | 2,843 | 122,293 | 125,136 |
| Total | $ 13,842 | $ 3,185 | $ 17,027 | $ 2,587,694 | $ 2,604,721 |

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 | $ 1,159 | $ 4,027 |
| Production and intermediate-term | 168 | 360 |
| Farm-related business | 1,662 | – |
| Rural residential real estate | 184 | 218 |
| Total | $ 3,173 | $ 4,605 |
| **Accruing restructured loans:** | | |
| Production and intermediate-term | $ 527 | $ 650 |
| Total | $ 527 | $ 650 |
| **Accruing loans 90 days or more past due:** | | |
| Real estate mortgage | $ 950 | $ – |
| Rural residential real estate | 90 | – |
| Total | $ 1,040 | $ – |
| Total nonperforming loans | $ 4,740 | $ 5,255 |
| Other property owned | – | – |
| Total nonperforming assets | $ 4,740 | $ 5,255 |
| Nonaccrual loans as a percentage of total loans | 0.12% | 0.18% |
| Nonperforming assets as a percentage of total loans and other property owned | 0.17% | 0.20% |
| Nonperforming assets as a percentage of capital | 1.00% | 1.21% |

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 | $ 2,196 | $ 1,360 |
| Past due | 977 | 3,245 |
| Total | $ 3,173 | $ 4,605 |
| **Impaired accrual loans:** | | |
| Restructured | $ 527 | $ 650 |
| 90 days or more past due | 1,040 | – |
| Total | $ 1,567 | $ 650 |
| Total impaired loans | $ 4,740 | $ 5,255 |
| Additional commitments to lend | $ 701 | $ – |

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:** | | | | | | | |
| Production and intermediate-term | $ 18 | $ 20 | $ 5 | $ 17 | $ 2 | $ 21 | $ 4 |
| Farm-related business | 1,032 | 1,030 | 79 | 931 | 121 | 1,180 | 197 |
| Total | $ 1,050 | $ 1,050 | $ 84 | $ 948 | $ 123 | $ 1,201 | $ 201 |
| **With no related allowance for credit losses:** | | | | | | | |
| Real estate mortgage | $ 2,109 | $ 2,828 | $ – | $ 1,904 | $ 246 | $ 2,413 | $ 404 |
| Production and intermediate-term | 677 | 1,124 | – | 611 | 79 | 774 | 130 |
| Farm-related business | 630 | 630 | – | 568 | 74 | 721 | 120 |
| Rural residential real estate | 274 | 314 | – | 247 | 32 | 314 | 52 |
| Total | $ 3,690 | $ 4,896 | $ – | $ 3,330 | $ 431 | $ 4,222 | $ 706 |
| **Total impaired loans:** | | | | | | | |
| Real estate mortgage | $ 2,109 | $ 2,828 | $ – | $ 1,904 | $ 246 | $ 2,413 | $ 404 |
| Production and intermediate-term | 695 | 1,144 | 5 | 628 | 81 | 795 | 134 |
| Farm-related business | 1,662 | 1,660 | 79 | 1,499 | 195 | 1,901 | 317 |
| Rural residential real estate | 274 | 314 | – | 247 | 32 | 314 | 52 |
| Total | $ 4,740 | $ 5,946 | $ 84 | $ 4,278 | $ 554 | $ 5,423 | $ 907 |

| Impaired loans: | December 31, 2021 Recorded Investment | Unpaid Principal Balance | Related Allowance | Year Ended December 31, 2021 Average Impaired Loans | Interest Income Recognized on Impaired Loans |
|---|---|---|---|---|---|
| **With a related allowance for credit losses:** | | | | | |
| Production and intermediate-term | $ 28 | $ 28 | $ 14 | $ 41 | $ 4 |
| Total | $ 28 | $ 28 | $ 14 | $ 41 | $ 4 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 4,027 | $ 5,022 | $ – | $ 5,921 | $ 504 |
| Production and intermediate-term | 982 | 1,471 | – | 1,444 | 123 |
| Rural residential real estate | 218 | 255 | – | 321 | 27 |
| Total | $ 5,227 | $ 6,748 | $ – | $ 7,686 | $ 654 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 4,027 | $ 5,022 | $ – | $ 5,921 | $ 504 |
| Production and intermediate-term | 1,010 | 1,499 | 14 | 1,485 | 127 |
| Rural residential real estate | 218 | 255 | – | 321 | 27 |
| Total | $ 5,255 | $ 6,776 | $ 14 | $ 7,727 | $ 658 |

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 | Other (including Mission Related) | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Activity related to the allowance for credit losses:** | | | | | | | | | | |
| Balance at June 30, 2022 | $ 3,174 | $ 2,517 | $ 793 | $ 14 | $ – | $ 256 | $ – | $ 8 | $ – | $ 6,762 |
| Charge-offs | – | – | – | – | – | – | – | – | – | – |
| Recoveries | – | – | – | – | – | – | – | – | – | – |
| Provision for loan losses | 188 | 46 | 717 | 2 | – | (1) | 3 | (1) | – | 954 |
| Balance at September 30, 2022 | $ 3,362 | $ 2,563 | $ 1,510 | $ 16 | $ – | $ 255 | $ 3 | $ 7 | $ – | $ 7,716 |
| Balance at December 31, 2021 | $ 3,131 | $ 3,343 | $ 545 | $ 13 | $ – | $ 272 | $ – | $ 1 | $ – | $ 7,305 |
| Charge-offs | – | – | – | – | – | – | – | – | – | – |
| Recoveries | – | – | – | – | – | – | – | – | – | – |
| Provision for loan losses | 231 | (780) | 965 | 3 | – | (17) | 3 | 6 | – | 411 |
| Balance at September 30, 2022 | $ 3,362 | $ 2,563 | $ 1,510 | $ 16 | $ – | $ 255 | $ 3 | $ 7 | $ – | $ 7,716 |
| Balance at June 30, 2021 | $ 3,111 | $ 2,720 | $ 684 | $ 40 | $ – | $ 615 | $ – | $ 1 | $ – | $ 7,171 |
| Charge-offs | – | (8) | – | – | – | – | – | – | – | (8) |
| Recoveries | – | – | – | – | – | – | – | – | – | – |
| Provision for loan losses | 17 | 233 | 60 | – | – | (8) | – | – | – | 302 |
| Balance at September 30, 2021 | $ 3,128 | $ 2,945 | $ 744 | $ 40 | $ – | $ 607 | $ – | $ 1 | $ – | $ 7,465 |
| Balance at December 31, 2020 | $ 3,082 | $ 3,810 | $ 632 | $ 31 | $ – | $ 1,241 | $ – | $ 2 | $ – | $ 8,798 |
| Charge-offs | – | (8) | – | – | – | – | – | – | – | (8) |
| Recoveries | – | 12 | 973 | – | – | – | – | – | – | 985 |
| Provision for loan losses | 46 | (869) | (861) | 9 | – | (634) | – | (1) | – | (2,310) |
| Balance at September 30, 2021 | $ 3,128 | $ 2,945 | $ 744 | $ 40 | $ – | $ 607 | $ – | $ 1 | $ – | $ 7,465 |
| **Allowance on loans evaluated for impairment:** | | | | | | | | | | |
| Individually | $ – | $ 5 | $ 79 | $ – | $ – | $ – | $ – | $ – | $ – | $ 84 |
| Collectively | 3,362 | 2,558 | 1,431 | 16 | – | 255 | 3 | 7 | – | 7,632 |
| Balance at September 30, 2022 | $ 3,362 | $ 2,563 | $ 1,510 | $ 16 | $ – | $ 255 | $ 3 | $ 7 | $ – | $ 7,716 |
| Individually | $ – | $ 14 | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ 14 |
| Collectively | 3,131 | 3,329 | 545 | 13 | – | 272 | – | 1 | – | 7,291 |
| Balance at December 31, 2021 | $ 3,131 | $ 3,343 | $ 545 | $ 13 | $ – | $ 272 | $ – | $ 1 | $ – | $ 7,305 |
| **Recorded investment in loans evaluated for impairment:** | | | | | | | | | | |
| Individually | $ 2,109 | $ 695 | $ 1,662 | $ – | $ – | $ 274 | $ – | $ – | $ – | $ 4,740 |
| Collectively | 1,709,672 | 560,312 | 176,322 | 13,368 | 402 | 131,260 | 5,878 | 1,398 | 182,938 | 2,781,550 |
| Balance at September 30, 2022 | $ 1,711,781 | $ 561,007 | $ 177,984 | $ 13,368 | $ 402 | $ 131,534 | $ 5,878 | $ 1,398 | $ 182,938 | $ 2,786,290 |
| Individually | $ 4,027 | $ 1,010 | $ – | $ – | $ – | $ 218 | $ – | $ – | $ – | $ 5,255 |
| Collectively | 1,578,562 | 618,193 | 140,183 | 7,419 | – | 129,352 | – | 621 | 125,136 | 2,599,466 |
| Balance at December 31, 2021 | $ 1,582,589 | $ 619,203 | $ 140,183 | $ 7,419 | $ – | $ 129,570 | $ – | $ 621 | $ 125,136 | $ 2,604,721 |

**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. There were no new TDRs that occurred during the three and nine months ended September 30, 2022 and 2021.

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

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

The following table provides information at 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 |
| Production and intermediate-term | $ 527 | $ 650 | $ – | $ – |
| Total loans | $ 527 | $ 650 | $ – | $ – |
| 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 probability of default scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, 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 | $ 5,709 | $ – | $ (441) | $ 5,268 | 7.96% |
| ABSs | 95 | – | (2) | 93 | 3.83 |
| Total | $ 5,804 | $ – | $ (443) | $ 5,361 | 7.90% |

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| RABs | $ 6,746 | $ 554 | $ (57) | $ 7,243 | 7.67% |
| ABSs | 170 | – | (5) | 165 | 3.58 |
| Total | $ 6,916 | $ 554 | $ (62) | $ 7,408 | 7.57% |

A summary of the 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 | 2,663 | 2,483 | 10.27 |
| After five years through ten years | 95 | 93 | 3.83 |
| After ten years | 3,046 | 2,785 | 5.95 |
| Total | $ 5,804 | $ 5,361 | 7.90% |

A portion of these investments has 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 tables show 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.

| | September 30, 2022 | | | |
|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Greater | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| RABs | $ 5,191 | $ (424) | $ 77 | $ (17) |
| ABSs | 93 | (2) | – | – |
| Total | $ 5,284 | $ (426) | $ 77 | $ (17) |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Greater | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| RABs | $ 428 | $ (57) | $ – | $ – |
| ABSs | 165 | (5) | – | – |
| Total | $ 593 | $ (62) | $ – | $ – |

The recording of an impairment loss 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. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

Based on the results of all analyses, the Association has recognized a total of $185 in credit-related other-than-temporary impairment on one security. No impairment was recognized during the three and nine month periods ended September 30, 2022 and 2021. For all other impaired investments, the Association has not recognized any credit losses as the 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.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Amount related to credit loss-beginning balance** | $ 185 | $ 185 | $ 185 | $ 185 |
| Additions for initial credit impairments | – | – | – | – |
| Additions for subsequent credit impairments | – | – | – | – |
| Reductions for increases in expected cash flows | – | – | – | – |
| Reductions for securities sold, settled, or matured | – | – | – | – |
| **Amount related to credit loss-ending balance** | $ 185 | $ 185 | $ 185 | $ 185 |
| Life to date incurred credit losses | – | – | – | – |
| **Remaining unrealized credit losses** | $ 185 | $ 185 | $ 185 | $ 185 |

***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 7.92 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 $584 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 | $ 970 | $ 970 | $ – | $ – | $ 970 |
| Recurring Assets | $ 970 | $ 970 | $ – | $ – | $ 970 |
| **Liabilities:** | | | | | |
| Recurring Liabilities | $ – | $ – | $ – | $ – | $ – |
| <u>Nonrecurring Measurements</u> | | | | | |
| **Assets:** | | | | | |
| Impaired loans | $ 966 | $ – | $ – | $ 966 | $ 966 |
| Other property owned | – | – | – | – | – |
| Other investments | 2,786 | – | – | 2,786 | 2,786 |
| Nonrecurring Assets | $ 3,752 | $ – | $ – | $ 3,752 | $ 3,752 |
| <u>Other Financial Instruments</u> | | | | | |
| **Assets:** | | | | | |
| Cash | $ 44 | $ 44 | $ – | $ – | $ 44 |
| RABs | 5,710 | – | – | 5,268 | 5,268 |
| ABSs | 95 | – | 93 | – | 93 |
| Loans | 2,736,974 | – | – | 2,448,984 | 2,448,984 |
| Other Financial Assets | $ 2,742,823 | $ 44 | $ 93 | $ 2,454,252 | $ 2,454,389 |
| **Liabilities:** | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 2,341,516 | $ – | $ – | $ 2,124,813 | $ 2,124,813 |
| Other Financial Liabilities | $ 2,341,516 | $ – | $ – | $ 2,124,813 | $ 2,124,813 |

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| **Recurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Assets held in trust funds | $ 875 | $ 875 | $ – | $ – | $ 875 |
| Recurring Assets | $ 875 | $ 875 | $ – | $ – | $ 875 |
| **Liabilities:** | | | | | |
| Recurring Liabilities | $ – | $ – | $ – | $ – | $ – |
| **Nonrecurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Impaired loans | $ 14 | $ – | $ – | $ 14 | $ 14 |
| Other property owned | – | – | – | – | – |
| Other investments | 2,105 | – | – | 2,105 | 2,105 |
| Nonrecurring Assets | $ 2,119 | $ – | $ – | $ 2,119 | $ 2,119 |
| **Other Financial Instruments** | | | | | |
| **Assets:** | | | | | |
| Cash | $ 29 | $ 29 | $ – | $ – | $ 29 |
| RABs | 6,746 | – | – | 7,243 | 7,243 |
| ABSs | 170 | – | 165 | – | 165 |
| Loans | 2,571,148 | – | – | 2,483,652 | 2,483,652 |
| Other Financial Assets | $ 2,578,093 | $ 29 | $ 165 | $ 2,490,895 | $ 2,491,089 |
| **Liabilities:** | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 2,194,319 | $ – | $ – | $ 2,153,444 | $ 2,153,444 |
| Other Financial Liabilities | $ 2,194,319 | $ – | $ – | $ 2,153,444 | $ 2,153,444 |

***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. 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<br>Probability of default<br>Loss severity |
| RABs | Discounted cash flow | Prepayment rates<br>Risk-adjusted spread |
| ABSs | Vendor priced | ** |
| Notes payable to AgFirst Farm Credit Bank | Discounted cash flow | Prepayment forecasts<br>Probability of default<br>Loss severity |

*** The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

## 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 | $ 229 | $ 344 | $ 686 | $ 1,033 |
| 401(k) | 229 | 221 | 744 | 729 |
| Other postretirement benefits | 70 | 54 | 201 | 154 |
| Total | $ 528 | $ 619 | $ 1,631 | $ 1,916 |

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.