
AgGeorgia 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 AgGeorgia 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/ James R. Crain
Chief Executive Officer

/s/ Brandie L. Thompson
Chief Financial Officer

/s/ Jack W. Bentley Jr.
Chairman of the Board

November 8, 2022

AgGeorgia Farm Credit, ACA

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/ James R. Crain
Chief Executive Officer

/s/ Brandie L. Thompson
Chief Financial Officer

November 8, 2022

AgGeorgia Farm Credit, ACA

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 AgGeorgia Farm Credit, ACA (Association or AgGeorgia) for the period ended September 30, 2022. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2021 Annual Report of the Association.

LOAN PORTFOLIO

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

The total loan volume of the Association as of September 30, 2022 was \$1,254 million, an increase of \$108 million as compared to \$1,146 million at December 31, 2021. Net loans outstanding at September 30, 2022 were \$1,248 million, as compared to \$1,139 million at December 31, 2021. This increase in loan volume is primarily related to increased demand for loans. Net loans accounted for 96.6 percent of total assets at September 30, 2022, as compared to 95.6 percent of total assets at December 31, 2021.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has remained stable, and credit administration remains satisfactory. Nonaccrual loans decreased from \$6,596 thousand at December 31, 2021 to \$5,261 thousand at September 30, 2022, as a result of timely management of nonearning assets.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2022, was \$5,809 thousand compared to \$6,805 thousand at December 31, 2021, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2022

Net income for the three months ended September 30, 2022 totaled \$6,437 thousand, as compared to \$5,894 thousand for the same period in 2021. This increase is a combination of higher net interest income, lower provision for loan losses expense and higher noninterest income in 2022 as compared to 2021. Net interest income for the period increased \$713 thousand compared to the same period in 2021, for a total of \$10,212 thousand for the period ended September 30, 2022.

Non-interest income for the three months ended September 30, 2022, totaled \$2,434 thousand, as compared to \$2,088 thousand for the same period of 2021. This increase is primarily due to increased patronage from other Farm Credit institutions during third quarter 2022 compared to the third quarter 2021. Non-interest expense for the three months ended September 30, 2022 totaled \$6,218 thousand, an increase of \$660 thousand compared to the same period of 2021, which was primarily related to operating expenses and insurance Fund premiums.

For the nine months ended September 30, 2022

Net income for the nine months ended September 30, 2022, totaled \$19,080 thousand as compared to \$16,142 thousand for the same period in 2021. Net interest income increased \$2,193 thousand for the nine months ended September 30, 2022, as compared to the same period in 2021. This increase is the result of higher loan volume earning interest income in 2022. The Association recorded a provision for loan losses reversal of \$1,221 thousand for the nine months ended September 30, 2022, as compared to an expense of \$821 thousand for the same period in 2021.

Non-interest income for the nine months ended September 30, 2022, totaled \$7,347 thousand as compared to \$6,502 thousand for the same period of 2021, an increase of \$845 thousand. Higher Patronage refunds from other Farm Credit institutions in 2022 versus 2021 led to the increase in non-interest income. Non-interest expense for the nine months ended September 30, 2022, increased \$2,143 thousand compared to the same period of 2021. This overall increase is the result of an increase in salaries, employee benefits, Insurance Fund premiums and other operating expenses.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable.

The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2022, was \$997,856 thousand as compared to \$894,593 thousand at December 31, 2021.

CAPITAL RESOURCES

Total members' equity at September 30, 2022 increased \$9,578 thousand to \$279,697 thousand from the December 31, 2021 total of \$270,119 thousand. The increase is primarily related to year to date net income.

Total capital stock and participation certificates were \$4,821 thousand on September 30, 2022, compared to \$4,653 thousand on December 31, 2021. This increase is attributed to the issuance of stock on new loans being greater than the retirement of stock on loans liquidated in the normal course of business.

Regulatory Capital Ratios

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

Ratio	Regulatory Minimum, Including Buffer*	9/30/2022	12/31/2021	9/30/2021
Permanent Capital Ratio	7.00%	20.78%	21.77%	21.75%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	20.69%	21.64%	21.62%
Tier 1 Capital Ratio	8.50%	20.69%	21.64%	21.62%
Total Capital Ratio	10.50%	21.14%	22.25%	22.23%
Tier 1 Leverage Ratio**	5.00%	20.84%	21.81%	21.89%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	16.00%	15.86%	15.82%

* Includes fully phased-in capital conservation buffers which became effective January 1, 2020.

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

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 permanent capital, common equity tier 1 (CET1), tier 1, total 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.

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.

For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

LIBOR TRANSITION

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

The FCA has issued guidelines with similar guidance as the U.S. prudential regulators but applicable for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a

LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure, stop the inflow of new LIBOR volume, and adjust operating processes to implement alternative reference rates.

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

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

<i>(dollars in thousands)</i>	Due in 2023			Total
	Due in 2022	(On or Before June 30)	Due after June 30, 2023	
Loans	\$ —	\$ 79	\$ 6,801	\$ 6,880
Total	\$ —	\$ 79	\$ 6,801	\$ 6,880
Note Payable to AgFirst Farm Credit Bank	\$ —	\$ 61	\$ 5,243	\$ 5,304
Total	\$ —	\$ 61	\$ 5,243	\$ 5,304

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 478-987-8300 Ext. 113, writing Brandie Thompson, Chief Financial Officer, AgGeorgia Farm Credit, ACA, P.O. Box 1820, Perry, GA 31069, or accessing the website, www.aggeorgia.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.

AgGeorgia 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	\$ 11	\$ 11
Loans	1,253,818	1,145,944
Allowance for loan losses	(5,809)	(6,805)
Net loans	1,248,009	1,139,139
Accrued interest receivable	13,969	11,063
Equity investments in other Farm Credit institutions	9,952	9,911
Premises and equipment, net	11,312	9,649
Other property owned	470	981
Accounts receivable	6,705	19,079
Other assets	1,913	2,074
Total assets	\$ 1,292,341	\$ 1,191,907
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 997,856	\$ 894,593
Accrued interest payable	2,435	1,774
Patronage refunds payable	1,138	14,424
Accounts payable	1,543	1,559
Other liabilities	9,672	9,438
Total liabilities	1,012,644	921,788
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	4,821	4,653
Retained earnings		
Allocated	56,491	65,912
Unallocated	218,793	199,971
Accumulated other comprehensive income (loss)	(408)	(417)
Total members' equity	279,697	270,119
Total liabilities and members' equity	\$ 1,292,341	\$ 1,191,907

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

AgGeorgia Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest Income				
Loans	\$ 17,390	\$ 14,636	\$ 47,293	\$ 41,137
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	7,178	5,137	18,322	14,359
Net interest income	10,212	9,499	28,971	26,778
Provision for (reversal of) allowance for loan losses	(12)	132	(1,221)	821
Net interest income after provision for (reversal of) allowance for loan losses	10,224	9,367	30,192	25,957
Noninterest Income				
Loan fees	113	95	452	589
Fees for financially related services	9	16	33	101
Patronage refunds from other Farm Credit institutions	2,304	1,959	6,884	5,546
Gains (losses) on sales of premises and equipment, net	105	(7)	105	35
Gains (losses) on other transactions	(97)	24	(128)	230
Other noninterest income	—	1	1	1
Total noninterest income	2,434	2,088	7,347	6,502
Noninterest Expense				
Salaries and employee benefits	3,834	3,869	12,214	11,146
Occupancy and equipment	351	298	802	753
Insurance Fund premiums	465	335	1,307	929
Purchased services	234	215	721	815
Data processing	92	55	200	243
Other operating expenses	1,098	779	3,090	2,545
(Gains) losses on other property owned, net	144	7	121	(119)
Total noninterest expense	6,218	5,558	18,455	16,312
Income before income taxes	6,440	5,897	19,084	16,147
Provision for income taxes	3	3	4	5
Net income	\$ 6,437	\$ 5,894	\$ 19,080	\$ 16,142
Other comprehensive income net of tax				
Employee benefit plans adjustments	3	4	9	12
Comprehensive income	\$ 6,440	\$ 5,898	\$ 19,089	\$ 16,154

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

AgGeorgia Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2020	\$ 4,515	\$ 71,535	\$ 180,347	\$ (499)	\$ 255,898
Comprehensive income			16,142	12	16,154
Capital stock/participation certificates issued/(retired), net	348				348
Retained earnings retired		(6,229)			(6,229)
Patronage distribution adjustment		482	(700)		(218)
Balance at September 30, 2021	\$ 4,863	\$ 65,788	\$ 195,789	\$ (487)	\$ 265,953
Balance at December 31, 2021	\$ 4,653	\$ 65,912	\$ 199,971	\$ (417)	\$ 270,119
Comprehensive income			19,080	9	19,089
Capital stock/participation certificates issued/(retired), net	168				168
Retained earnings retired		(9,421)			(9,421)
Patronage distribution adjustment			(258)		(258)
Balance at September 30, 2022	\$ 4,821	\$ 56,491	\$ 218,793	\$ (408)	\$ 279,697

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

AgGeorgia 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 AgGeorgia 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 and for the year ended December 31, 2021, are contained in the 2021 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

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

Accounting Standards Effective During the Period

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	September 30, 2022	December 31, 2021
Real estate mortgage	\$ 956,287	\$ 878,326
Production and intermediate-term	236,965	218,536
Loans to cooperatives	2,018	2,071
Processing and marketing	28,240	28,224
Farm-related business	6,485	2,992
Communication	3,938	—
Rural residential real estate	15,310	13,906
International	4,575	1,889
Total loans	\$ 1,253,818	\$ 1,145,944

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	\$ 10,117	\$ 79,073	\$ —	\$ —	\$ —	\$ —	\$ 10,117	\$ 79,073
Production and intermediate-term	11,834	14,145	403	—	—	—	12,237	14,145
Loans to cooperatives	1,001	—	—	—	—	—	1,001	—
Processing and marketing	14,271	104,165	—	—	—	—	14,271	104,165
Communication	3,950	—	—	—	—	—	3,950	—
International	4,583	—	—	—	—	—	4,583	—
Total	\$ 45,756	\$ 197,383	\$ 403	\$ —	\$ —	\$ —	\$ 46,159	\$ 197,383

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	\$ 9,626	\$ 76,579	\$ 46	\$ —	\$ —	\$ —	\$ 9,672	\$ 76,579
Production and intermediate-term	7,663	15,098	1,131	—	—	—	8,794	15,098
Loans to cooperatives	1,035	—	—	—	—	—	1,035	—
Processing and marketing	13,824	114,337	—	—	9,407	—	23,231	114,337
Farm-related business	—	—	52	—	—	—	52	—
International	1,894	—	—	—	—	—	1,894	—
Total	\$ 34,042	\$ 206,014	\$ 1,229	\$ —	\$ 9,407	\$ —	\$ 44,678	\$ 206,014

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

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

	September 30, 2022	December 31, 2021		September 30, 2022	December 31, 2021
Real estate mortgage:			Farm-related business:		
Acceptable	98.45%	97.39%	Acceptable	100.00%	100.00%
OAEM	1.03	1.86	OAEM	—	—
Substandard/doubtful/loss	0.52	0.75	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Communication:		
Acceptable	95.24%	93.70%	Acceptable	100.00%	—%
OAEM	1.68	1.73	OAEM	—	—
Substandard/doubtful/loss	3.08	4.57	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	—%
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	100.00%	Acceptable	98.48%	98.19%
OAEM	—	—	OAEM	1.52	1.72
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	0.09
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			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%
			Total loans:		
			Acceptable	97.90%	96.77%
			OAEM	1.12	1.78
			Substandard/doubtful/loss	0.98	1.45
				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	\$ 2,195	\$ 763	\$ 2,958	\$ 962,970	\$ 965,928	
Production and intermediate-term	543	1,736	2,279	238,780	241,059	
Loans to cooperatives	—	—	—	2,030	2,030	
Processing and marketing	—	—	—	28,356	28,356	
Farm-related business	15	—	15	6,519	6,534	
Communication	—	—	—	3,938	3,938	
Rural residential real estate	242	—	242	15,120	15,362	
International	—	—	—	4,580	4,580	
Total	\$ 2,995	\$ 2,499	\$ 5,494	\$ 1,262,293	\$ 1,267,787	

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	\$ 3,409	\$ 771	\$ 4,180	\$ 881,882	\$ 886,062	
Production and intermediate-term	1,156	2,206	3,362	218,320	221,682	
Loans to cooperatives	—	—	—	2,095	2,095	
Processing and marketing	—	—	—	28,291	28,291	
Farm-related business	52	—	52	2,988	3,040	
Rural residential real estate	204	12	216	13,730	13,946	
International	—	—	—	1,891	1,891	
Total	\$ 4,821	\$ 2,989	\$ 7,810	\$ 1,149,197	\$ 1,157,007	

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	\$ 2,380	\$ 2,542
Production and intermediate-term	2,881	4,042
Rural residential real estate	—	12
Total	\$ 5,261	\$ 6,596
Accruing restructured loans:		
Real estate mortgage	\$ 16,683	\$ 17,684
Production and intermediate-term	8,828	6,975
Rural residential real estate	6	9
Total	\$ 25,517	\$ 24,668
Accruing loans 90 days or more past due:		
Total	\$ —	\$ —
Total nonperforming loans	\$ 30,778	\$ 31,264
Other property owned	470	981
Total nonperforming assets	\$ 31,248	\$ 32,245
Nonaccrual loans as a percentage of total loans	0.42%	0.58%
Nonperforming assets as a percentage of total loans and other property owned	2.49%	2.81%
Nonperforming assets as a percentage of capital	11.17%	11.94%

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	\$ 2,527	\$ 3,059
Past due	2,734	3,537
Total	\$ 5,261	\$ 6,596
Impaired accrual loans:		
Restructured	\$ 25,517	\$ 24,668
Total	\$ 25,517	\$ 24,668
Total impaired loans	\$ 30,778	\$ 31,264
Additional commitments to lend	\$ —	\$ 50

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	\$ 195	\$ 195	\$ 113	\$ 197	\$ 3	\$ 201	\$ 8
Production and intermediate-term	1,584	2,103	400	1,601	27	1,635	65
Farm-related business	—	—	—	—	—	—	—
Rural residential real estate	—	—	—	—	—	—	—
Total	\$ 1,779	\$ 2,298	\$ 513	\$ 1,798	\$ 30	\$ 1,836	\$ 73
With no related allowance for credit losses:							
Real estate mortgage	\$ 18,868	\$ 18,960	\$ —	\$ 19,071	\$ 317	\$ 19,471	\$ 779
Production and intermediate-term	10,125	11,311	—	10,234	170	10,448	418
Farm-related business	—	68	—	—	—	—	—
Rural residential real estate	6	6	—	6	—	6	—
Total	\$ 28,999	\$ 30,345	\$ —	\$ 29,311	\$ 487	\$ 29,925	\$ 1,197
Total impaired loans:							
Real estate mortgage	\$ 19,063	\$ 19,155	\$ 113	\$ 19,268	\$ 320	\$ 19,672	\$ 787
Production and intermediate-term	11,709	13,414	400	11,835	197	12,083	483
Farm-related business	—	68	—	—	—	—	—
Rural residential real estate	6	6	—	6	—	6	—
Total	\$ 30,778	\$ 32,643	\$ 513	\$ 31,109	\$ 517	\$ 31,761	\$ 1,270

	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	\$ 203	\$ 203	\$ 114	\$ 225	\$ 10
Production and intermediate-term	2,221	2,546	530	2,450	115
Farm-related business	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Total	\$ 2,424	\$ 2,749	\$ 644	\$ 2,675	\$ 125
With no related allowance for credit losses:					
Real estate mortgage	\$ 20,023	\$ 19,990	\$ —	\$ 22,091	\$ 1,029
Production and intermediate-term	8,796	10,825	—	9,705	451
Farm-related business	—	68	—	—	—
Rural residential real estate	21	23	—	24	1
Total	\$ 28,840	\$ 30,906	\$ —	\$ 31,820	\$ 1,481
Total impaired loans:					
Real estate mortgage	\$ 20,226	\$ 20,193	\$ 114	\$ 22,316	\$ 1,039
Production and intermediate-term	11,017	13,371	530	12,155	566
Farm-related business	—	68	—	—	—
Rural residential real estate	21	23	—	24	1
Total	\$ 31,264	\$ 33,655	\$ 644	\$ 34,495	\$ 1,606

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-	Agribusiness*	Communication	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:							
Balance at June 30, 2022	\$ 3,477	\$ 2,098	\$ 94	\$ 3	\$ 30	\$ 1	\$ 5,703
Charge-offs	—	—	—	—	—	—	—
Recoveries	—	118	—	—	—	—	118
Provision for loan losses	40	(119)	62	—	3	2	(12)
Balance at September 30, 2022	\$ 3,517	\$ 2,097	\$ 156	\$ 3	\$ 33	\$ 3	\$ 5,809
Balance at December 31, 2021	\$ 4,146	\$ 2,533	\$ 92	\$ —	\$ 33	\$ 1	\$ 6,805
Charge-offs	—	(21)	—	—	—	—	(21)
Recoveries	29	217	—	—	—	—	246
Provision for loan losses	(658)	(632)	64	3	—	2	(1,221)
Balance at September 30, 2022	\$ 3,517	\$ 2,097	\$ 156	\$ 3	\$ 33	\$ 3	\$ 5,809
Balance at June 30, 2021	\$ 3,823	\$ 3,114	\$ 101	\$ —	\$ 31	\$ 2	\$ 7,071
Charge-offs	—	(38)	—	—	—	—	(38)
Recoveries	46	33	—	—	—	—	79
Provision for loan losses	69	57	5	—	2	(1)	132
Balance at September 30, 2021	\$ 3,938	\$ 3,166	\$ 106	\$ —	\$ 33	\$ 1	\$ 7,244
Balance at December 31, 2020	\$ 2,570	\$ 3,894	\$ 74	\$ —	\$ 16	\$ 1	\$ 6,555
Charge-offs	—	(301)	—	—	—	—	(301)
Recoveries	56	113	—	—	—	—	169
Provision for loan losses	1,312	(540)	32	—	17	—	821
Balance at September 30, 2021	\$ 3,938	\$ 3,166	\$ 106	\$ —	\$ 33	\$ 1	\$ 7,244
Allowance on loans evaluated for impairment:							
Individually	\$ 113	\$ 400	\$ —	\$ —	\$ —	\$ —	\$ 513
Collectively	3,404	1,697	156	3	33	3	5,296
Balance at September 30, 2022	\$ 3,517	\$ 2,097	\$ 156	\$ 3	\$ 33	\$ 3	\$ 5,809
Individually	\$ 114	\$ 530	\$ —	\$ —	\$ —	\$ —	\$ 644
Collectively	4,032	2,003	92	—	33	1	6,161
Balance at December 31, 2021	\$ 4,146	\$ 2,533	\$ 92	\$ —	\$ 33	\$ 1	\$ 6,805
Recorded investment in loans evaluated for impairment:							
Individually	\$ 20,430	\$ 15,871	\$ —	\$ —	\$ 6	\$ —	\$ 36,307
Collectively	945,498	225,188	36,920	3,938	15,356	4,580	1,231,480
Balance at September 30, 2022	\$ 965,928	\$ 241,059	\$ 36,920	\$ 3,938	\$ 15,362	\$ 4,580	\$ 1,267,787
Individually	\$ 28,174	\$ 15,140	\$ —	\$ —	\$ 21	\$ —	\$ 43,335
Collectively	857,888	206,542	33,426	—	13,925	1,891	1,113,672
Balance at December 31, 2021	\$ 886,062	\$ 221,682	\$ 33,426	\$ —	\$ 13,946	\$ 1,891	\$ 1,157,007

*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.

Three Months Ended September 30, 2022					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ —	\$ 152	\$ —	\$ 152	
Total	\$ —	\$ 152	\$ —	\$ 152	
Post-modification:					
Production and intermediate-term	\$ —	\$ 159	\$ —	\$ 159	\$ —
Total	\$ —	\$ 159	\$ —	\$ 159	\$ —

Nine Months Ended September 30, 2022					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 315	\$ 158	\$ —	\$ 473	
Production and intermediate-term	—	5,040	—	5,040	
Total	\$ 315	\$ 5,198	\$ —	\$ 5,513	
Post-modification:					
Real estate mortgage	\$ 316	\$ 160	\$ —	\$ 476	\$ —
Production and intermediate-term	—	5,047	—	5,047	—
Total	\$ 316	\$ 5,207	\$ —	\$ 5,523	\$ —

Three Months Ended September 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ 328	\$ —	\$ —	\$ 328	
Total	\$ 328	\$ —	\$ —	\$ 328	
Post-modification:					
Production and intermediate-term	\$ 328	\$ —	\$ —	\$ 328	\$ —
Total	\$ 328	\$ —	\$ —	\$ 328	\$ —

Nine Months Ended September 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 1,594	\$ 5,549	\$ —	\$ 7,143	
Production and intermediate-term	645	968	—	1,613	
Total	\$ 2,239	\$ 6,517	\$ —	\$ 8,756	
Post-modification:					
Real estate mortgage	\$ 1,605	\$ 5,688	\$ —	\$ 7,293	\$ —
Production and intermediate-term	645	1,021	—	1,666	(8)
Total	\$ 2,250	\$ 6,709	\$ —	\$ 8,959	\$ (8)

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	\$ 16,961	\$ 17,991	\$ 278	\$ 307
Production and intermediate-term	10,543	9,268	1,715	2,293
Rural residential real estate	6	9	—	—
Total loans	\$ 27,510	\$ 27,268	\$ 1,993	\$ 2,600
Additional commitments to lend	\$ —	\$ —		

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 3.35 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 \$1,351 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Employee Benefit Plans:				
Balance at beginning of period	\$ (411)	\$ (491)	\$ (417)	\$ (499)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	3	4	9	12
Net current period other comprehensive income	3	4	9	12
Balance at end of period	\$ (408)	\$ (487)	\$ (408)	\$ (487)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2022	2021	2022	2021	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (3)	\$ (4)	\$ (9)	\$ (12)	See Note 7.
Net amounts reclassified	\$ (3)	\$ (4)	\$ (9)	\$ (12)	

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 6 — Fair Value Measurement

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

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs

to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

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

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

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models,

discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

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

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

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

	September 30, 2022				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>					
Assets:					
Assets held in trust funds	\$ 1,769	\$ 1,769	\$ —	\$ —	\$ 1,769
Recurring Assets	\$ 1,769	\$ 1,769	\$ —	\$ —	\$ 1,769
Liabilities:					
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —
<u>Nonrecurring Measurements</u>					
Assets:					
Impaired loans	\$ 1,266	\$ —	\$ —	\$ 1,266	\$ 1,266
Other property owned	470	—	—	500	500
Nonrecurring Assets	\$ 1,736	\$ —	\$ —	\$ 1,766	\$ 1,766
<u>Other Financial Instruments</u>					
Assets:					
Cash	\$ 11	\$ 11	\$ —	\$ —	\$ 11
Loans	1,246,743	—	—	1,153,473	1,153,473
Other Financial Assets	\$ 1,246,754	\$ 11	\$ —	\$ 1,153,473	\$ 1,153,484
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 997,856	\$ —	\$ —	\$ 912,038	\$ 912,038
Other Financial Liabilities	\$ 997,856	\$ —	\$ —	\$ 912,038	\$ 912,038

December 31, 2021							
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value		
<u>Recurring Measurements</u>							
Assets:							
Assets held in trust funds	\$ 1,866	\$ 1,866	\$ –	\$ –	\$		1,866
Recurring Assets	\$ 1,866	\$ 1,866	\$ –	\$ –	\$		1,866
Liabilities:							
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$		–
<u>Nonrecurring Measurements</u>							
Assets:							
Impaired loans	\$ 1,780	\$ –	\$ –	\$ 1,780	\$		1,780
Other property owned	981	–	–	1,091			1,091
Nonrecurring Assets	\$ 2,761	\$ –	\$ –	\$ 2,871	\$		2,871
<u>Other Financial Instruments</u>							
Assets:							
Cash	\$ 11	\$ 11	\$ –	\$ –	\$		11
Loans	1,137,359	–	–	1,133,201			1,133,201
Other Financial Assets	\$ 1,137,370	\$ 11	\$ –	\$ 1,133,201	\$		1,133,212
Liabilities:							
Notes payable to AgFirst Farm Credit Bank	\$ 894,593	\$ –	\$ –	\$ 884,119	\$		884,119
Other Financial Liabilities	\$ 894,593	\$ –	\$ –	\$ 884,119	\$		884,119

Uncertainty in Measurements of Fair Value

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated below. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

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

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the

Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

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

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

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Pension	\$ 241	\$ 710	\$ 724	\$ 2,129
401(k)	172	166	677	576
Other postretirement benefits	195	189	590	577
Total	\$ 608	\$ 1,065	\$ 1,991	\$ 3,282

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

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

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