Cape Fear 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 Cape Fear 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.

Nash Johnson
Chairman of the Board

Evan J. Kleinhans
Chief Executive Officer

Charles M. Hester
Chief Financial Officer

November 8, 2022

Cape Fear 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.

Evan J. Kleinhans
Chief Executive Officer

Charles M. Hester
Chief Financial Officer

November 8, 2022

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

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio consists of agricultural commodities in our region, including swine, poultry, tobacco, and row crop operations. The Association's loan portfolio contains a concentration of swine and poultry loans. Demand for pork, chicken, turkey as well as prices of field grains affects the price of these commodities. Other factors including but not limited to international trade policies, political risks and nuisance lawsuits could impact these industries and the Association's corresponding loan portfolio. While demand for tobacco and cotton remains weak, increasing prices for corn and soy beans have improved the outlook for many row crop producers in the Association's territory. Credit quality has improved since the fourth quarter of 2021 and remains acceptable overall.

The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory. Risk exposure is reduced by many of the borrowers in the region having diversified farming operations as well as varying farm size. This factor, along with the opportunities for non-farm income in the area, lessens the level of dependency on any single given commodity. Concentration risk is further mitigated by a portfolio of participation loans purchased or originated and sold. The Association also mitigates concentration risk through the use of USDA and Farmer Mac guarantees.

The gross loan volume of the Association at September 30, 2022 was $1,152,639, an increase of $89,441 or 8.41 percent as compared to $1,063,198 at December 31, 2021. When compared to the same period in 2021, gross loan volume increased by $94,129 or 8.89 percent from $1,058,510. Net loans outstanding at September 30, 2022 were $1,143,827, an increase of $89,171 or 8.45 percent as compared to $1,054,656 at December 31, 2021. When compared to the same period in 2021, net loans outstanding increased by $93,782 or 8.93 percent from $1,050,045. Net loans accounted for 96.94 percent of total assets at September 30, 2022, as compared to 95.79 percent and 96.98 percent at December 31, 2021 and September 30, 2021, respectively.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased $764 to $6,704 at September 30, 2022 from $5,940 at December 31, 2021. The increase in nonaccrual volume was primarily attributed to the transfer of several loans to nonaccrual status during the nine month period. 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 $8,812, which was more than the December 31, 2021 amount of $8,542 by $270 or 3.16 percent. The increase in the overall allowance was primarily attributed to an increase in both the general and specific reserves.

Other investments consist of Rural America Bonds which come under the Farm Credit Administration's (FCA) Mission Related Investments. The objective of Rural America Bonds is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. At September 30, 2022, the Association had $2,520 in Rural America Bonds, which were all classified as investment securities, as compared to $2,584 at December 31, 2021.

Effective December 31, 2016, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

Other property owned (OPO) at September 30, 2022 was $0, as compared to $236 at December 31, 2021.

RESULTS OF OPERATIONS

For the three months ended September 30, 2022

Net income for the three months ended September 30, 2022 totaled $5,931 as compared to $5,538 for the same period in 2021, an increase of $393 or 7.10 percent.

For the three months ended September 30, 2022, net interest income increased $641 or 8.83 percent as compared to the same period in 2021. Interest income on loans increased by $2,531 while interest income from investment securities remained flat. Interest expense increased by $1,890 compared to the same period last year. Provision for loan losses increased by $278 in comparison to the same period in 2021. There was a provision for loan losses of $410 for the three months ended September 30, 2022, as compared to $132 for the same period in 2021. Nonaccrual income was $29 for the three months ended September 30, 2022, as compared to $99 for the same period in 2021 which is a decrease of $70.

Noninterest income for the three months ended September 30, 2022 totaled $3,658 as compared to $3,051 for the same period in 2021, an increase of $607 or 19.90 percent. Items contributing to the increase included a $505 increase in patronage refunds from other Farm Credit institutions, an $84 increase in loan fee income, and a $40 increase in gains on sales of premises and equipment. The overall increase was offset by a $10 decrease in gains on sales of rural home loans, a $6 decrease in fees for financially related services, and a $6 decrease in other gains.

Noninterest expense for the three months ended September 30, 2022 totaled $5,201 as compared to $4,624 for the same period in 2021, an increase of $577 or 12.48 percent. Items contributing to the increase included a $313 increase in purchased services, a $265 increase in other operating expenses, a $124 increase in insurance fund premiums, and a $43 increase in occupancy and equipment. The overall increase was offset by a $147 decrease in salaries and employee benefits, an $11 decrease in data processing, and a $10 decrease in losses on OPO.

For the nine months ended September 30, 2022

Net income for the nine months ended September 30, 2022 totaled $19,481 as compared to $19,595 for the same period in 2021, a decrease of $114 or 0.58 percent.

For the nine months ended September 30, 2022, net interest income increased $1,280 or 5.98 percent compared to the same period in 2021. Interest income on loans increased by $4,321 while interest income from investment securities decreased by $3. Interest expense increased by $3,038 compared to the same period last year. Reversal of allowance for loan losses decreased by $1,056 in comparison to the same period in 2021. There was a reversal of allowance for loan losses of $117 for the nine months ended September 30, 2022, as compared to $1,173 for the same period in 2021. Nonaccrual income was $120 for the nine months ended September 30, 2022, as compared to $459 for the same period in 2021 which is a decrease of $339.

Noninterest income for the nine months ended September 30, 2022 totaled $11,389 as compared to $10,529 for the same period in 2021, an increase of $860 or 8.17 percent. Items contributing to the increase included a $1,514 increase in patronage refunds from other Farm Credit institutions and a $59 increase in gains on sales of premises and equipment. The overall increase was offset by a $668 decrease in loan fee income, a $26 decrease in other gains, a $10 decrease in gains on sales of rural home loans, and a $9 decrease in fees for financially related services.

Noninterest expense for the nine months ended September 30, 2022 totaled $14,654 as compared to $13,456 for the same period in 2021, an increase of $1,198 or 8.90 percent. Items contributing to the increase included a $734 increase in other operating expenses, a $354 increase in purchased services, a $333 increase in insurance fund premiums, and a $90 increase in occupancy and equipment. The overall increase was offset by a $172 decrease in salaries and employee benefits, a $110 decrease in losses on OPO, and a $31 decrease in data processing.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2022 was $926,478 as compared to $836,955 at December 31, 2021.

See Note 4 in the Notes to the Consolidated Financial Statements for information on the status of compliance with covenants under the General Financing Agreement.

CAPITAL RESOURCES

Total members' equity at September 30, 2022 increased to $246,198 from the December 31, 2021 total of $226,693. The increase is primarily due to recognition of net income retained through the third quarter.

FCA regulations require all Farm Credit institutions to maintain minimum common equity tier 1 (CET1), tier 1 capital, total capital, and permanent capital risk-based capital ratios, along with tier 1 leverage and unallocated retained earnings equivalents leverage ratios. As of September 30, 2022, all ratios were well above the regulatory minimums.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2022
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.5%	7.0%	18.79%
Tier 1 Capital	6.0%	2.5%	8.5%	18.79%
Total Capital	8.0%	2.5%	10.5%	19.49%
Permanent Capital Ratio	7.0%	0.0%	7.0%	18.92%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	19.76%
UREE Leverage Ratio	1.5%	0.0%	1.5%	19.53%

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

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.

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.

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.

FUTURE OF LIBOR

The Association has exposure to LIBOR arising from loans made to customers and the note payable to AgFirst Farm Credit Bank.

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.

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. • 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: 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, 2. An allowance will be established for estimated credit losses on any debt securities, 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. • 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.
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. Troubled Debt Restructurings (TDRs) by Creditors • 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. Vintage Disclosures—Gross Writeoffs • 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. • The guidance clarifies accounting principles for measuring the fair value of an equity security subject to a contractual sale restriction and improves current GAAP by reducing diversity in practice, reducing cost and complexity, and increasing comparability of financial information across reporting entities. • The amendments also require certain disclosures for equity securities subject to contractual sale restrictions.	• For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. • For all entities except investment companies, the Update should be applied prospectively with any adjustments from adoption recognized in earnings. • Early adoption is permitted.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-368-5819 ext. 3262, or writing Charles M. Hester, Cape Fear Farm Credit, P. O. Box 2405, Fayetteville, NC 28302, or accessing the website, *www.capefearfarmcredit.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 Association.

Cape Fear Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)		September 30, 2022		December 31, 2021
		(unaudited)		*(audited)*
Assets				
Cash	**$**	**17**	$	49
Investments in debt securities:				
Held to maturity (fair value of $2,211 and $2,687, respectively)		**2,520**		2,584
Loans		**1,152,639**		1,063,198
Allowance for loan losses		**(8,812)**		(8,542)
Net loans		**1,143,827**		1,054,656
Loans held for sale		**—**		58
Accrued interest receivable		**10,025**		7,696
Equity investments in other Farm Credit institutions		**9,526**		9,485
Premises and equipment, net		**4,456**		4,442
Other property owned		**—**		236
Accounts receivable		**9,315**		21,762
Other assets		**258**		85
Total assets	**$**	**1,179,944**	$	1,101,053
Liabilities				
Notes payable to AgFirst Farm Credit Bank	**$**	**926,478**	$	836,955
Accrued interest payable		**2,104**		1,448
Patronage refunds payable		**130**		31,051
Accounts payable		**2,041**		1,963
Other liabilities		**2,993**		2,943
Total liabilities		**933,746**		874,360
Commitments and contingencies (Note 8)				
Members' Equity				
Capital stock and participation certificates		**2,592**		2,581
Retained earnings				
Allocated		**120,233**		118,319
Unallocated		**123,627**		106,060
Accumulated other comprehensive income (loss)		**(254)**		(267)
Total members' equity		**246,198**		226,693
Total liabilities and members' equity	**$**	**1,179,944**	$	1,101,053

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

Cape Fear Farm Credit, ACA

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	**$ 14,050**	$ 11,519	**$ 38,012**	$ 33,691
Investments	**38**	38	**114**	117
Total interest income	**14,088**	11,557	**38,126**	33,808
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**6,186**	4,296	**15,442**	12,404
Net interest income	**7,902**	7,261	**22,684**	21,404
Provision for (reversal of) allowance for loan losses	**410**	132	**(117)**	(1,173)
Net interest income after provision for (reversal of) allowance for loan losses	**7,492**	7,129	**22,801**	22,577
Noninterest Income				
Loan fees	**513**	429	**1,797**	2,465
Fees for financially related services	**4**	10	**11**	20
Patronage refunds from other Farm Credit institutions	**3,097**	2,592	**9,463**	7,949
Gains (losses) on sales of rural home loans, net	**6**	16	**12**	22
Gains (losses) on sales of premises and equipment, net	**40**	—	**120**	61
Gains (losses) on other transactions	**(2)**	4	**(14)**	12
Total noninterest income	**3,658**	3,051	**11,389**	10,529
Noninterest Expense				
Salaries and employee benefits	**2,811**	2,958	**8,712**	8,884
Occupancy and equipment	**266**	223	**733**	643
Insurance Fund premiums	**448**	324	**1,272**	939
Purchased services	**788**	475	**1,420**	1,066
Data processing	**39**	50	**105**	136
Other operating expenses	**848**	583	**2,461**	1,727
(Gains) losses on other property owned, net	**1**	11	**(49)**	61
Total noninterest expense	**5,201**	4,624	**14,654**	13,456
Income before income taxes	**5,949**	5,556	**19,536**	19,650
Provision for income taxes	**18**	18	**55**	55
Net income	**$ 5,931**	$ 5,538	**$ 19,481**	$ 19,595
Other comprehensive income net of tax				
Employee benefit plans adjustments	**4**	5	**13**	14
Comprehensive income	**$ 5,935**	$ 5,543	**$ 19,494**	$ 19,609

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

Cape Fear Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings: Allocated	Retained Earnings: Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 2,512	$ 116,377	$ 102,507	$ (291)	$ 221,105
Comprehensive income			19,595	14	19,609
Capital stock/participation certificates issued/(retired), net	52				52
Patronage distribution adjustment		317	(322)		(5)
Balance at September 30, 2021	$ 2,564	$ 116,694	$ 121,780	$ (277)	$ 240,761
Balance at December 31, 2021	**$ 2,581**	**$ 118,319**	**$ 106,060**	**$ (267)**	**$ 226,693**
Comprehensive income			**19,481**	**13**	**19,494**
Capital stock/participation certificates issued/(retired), net	**11**				**11**
Patronage distribution adjustment		**1,914**	**(1,914)**		**—**
Balance at September 30, 2022	**$ 2,592**	**$ 120,233**	**$ 123,627**	**$ (254)**	**$ 246,198**

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

Cape Fear 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 Cape Fear 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	$ 775,565	$ 775,094
Production and intermediate-term	229,139	207,190
Loans to cooperatives	21,287	15,905
Processing and marketing	66,429	33,126
Farm-related business	22,014	13,035
Communication	15,191	4,334
Power and water/waste disposal	2,193	–
Rural residential real estate	7,335	6,402
International	9,475	3,597
Lease receivables	4,011	4,515
Total loans	$ 1,152,639	$ 1,063,198

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	$ 21,023	$ 318,384	$ –	$ 6,881	$ 36,911	$ –	$ 57,934	$ 325,265
Production and intermediate-term	27,453	186,197	–	–	–	–	27,453	186,197
Loans to cooperatives	9,631	–	11,680	–	–	–	21,311	–
Processing and marketing	62,753	–	–	–	–	–	62,753	–
Farm-related business	–	–	–	2,000	–	–	–	2,000
Communication	15,228	–	–	–	–	–	15,228	–
Power and water/waste disposal	2,195	–	–	–	–	–	2,195	–
International	9,483	–	–	–	–	–	9,483	–
Lease receivables	–	–	4,013	–	–	–	4,013	–
Total	$ 147,766	$ 504,581	$ 15,693	$ 8,881	$ 36,911	$ –	$ 200,370	$ 513,462

	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	$ 18,578	$ 328,230	$ –	$ 7,568	$ 38,797	$ –	$ 57,375	$ 335,798
Production and intermediate-term	14,467	401,913	–	10,997	68	–	14,535	412,910
Loans to cooperatives	5,741	–	10,190	–	–	–	15,931	–
Processing and marketing	30,275	–	–	–	–	–	30,275	–
Farm-related business	–	915	–	3,963	–	–	–	4,878
Communication	4,353	–	–	–	–	–	4,353	–
International	3,600	–	–	–	–	–	3,600	–
Lease receivables	–	–	4,518	–	–	–	4,518	–
Total	$ 77,014	$ 731,058	$ 14,708	$ 22,528	$ 38,865	$ –	$ 130,587	$ 753,586

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	96.56%	96.34%
OAEM	2.99	3.17
Substandard/doubtful/loss	0.45	0.49
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	95.18%	95.49%
OAEM	3.38	2.90
Substandard/doubtful/loss	1.44	1.61
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	99.49%	58.02%
OAEM	0.39	–
Substandard/doubtful/loss	0.12	41.98
	100.00%	100.00%

	September 30, 2022	December 31, 2021
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Power and water/waste disposal:		
Acceptable	100.00%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	–%
Rural residential real estate:		
Acceptable	91.36%	96.18%
OAEM	8.41	3.42
Substandard/doubtful/loss	0.23	0.40
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	90.99%	95.74%
OAEM	2.07	2.17
Substandard/doubtful/loss	6.94	2.09
	100.00%	100.00%
Total loans:		
Acceptable	96.63%	95.90%
OAEM	2.75	2.90
Substandard/doubtful/loss	0.62	1.20
	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	$ 5,014	$ 1,464	$ 6,478	$ 775,403	$ 781,881
Production and intermediate-term	447	1,079	1,526	230,892	232,418
Loans to cooperatives	–	–	–	21,358	21,358
Processing and marketing	–	–	–	66,639	66,639
Farm-related business	48	27	75	22,007	22,082
Communication	–	–	–	15,193	15,193
Power and water/waste disposal	–	–	–	2,193	2,193
Rural residential real estate	163	–	163	7,209	7,372
International	–	–	–	9,493	9,493
Lease receivables	–	279	279	3,743	4,022
Total	$ 5,672	$ 2,849	$ 8,521	$ 1,154,130	$ 1,162,651

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	$ 1,641	$ 1,309	$ 2,950	$ 777,150	$ 780,100
Production and intermediate-term	1,806	1,121	2,927	206,758	209,685
Loans to cooperatives	–	–	–	15,929	15,929
Processing and marketing	–	–	–	33,204	33,204
Farm-related business	–	46	46	13,031	13,077
Communication	–	–	–	4,334	4,334
Rural residential real estate	134	–	134	6,293	6,427
International	–	–	–	3,604	3,604
Lease receivables	231	–	231	4,291	4,522
Total	$ 3,812	$ 2,476	$ 6,288	$ 1,064,594	$ 1,070,882

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	$ 4,442	$ 3,580
Production and intermediate-term	1,954	2,212
Farm-related business	27	46
Rural residential real estate	2	8
Lease receivables	279	94
Total	$ 6,704	$ 5,940
Accruing restructured loans:		
Real estate mortgage	$ 946	$ 1,674
Production and intermediate-term	2,779	2,429
Rural residential real estate	–	7
Total	$ 3,725	$ 4,110
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 10,429	$ 10,050
Other property owned	–	236
Total nonperforming assets	$ 10,429	$ 10,286
Nonaccrual loans as a percentage of total loans	0.58%	0.56%
Nonperforming assets as a percentage of total loans and other property owned	0.90%	0.97%
Nonperforming assets as a percentage of capital	4.24%	4.54%

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	$ 3,702	$ 2,697
Past due	3,002	3,243
Total	$ 6,704	$ 5,940
Impaired accrual loans:		
Restructured	$ 3,725	$ 4,110
90 days or more past due	–	–
Total	$ 3,725	$ 4,110
Total impaired loans	$ 10,429	$ 10,050
Additional commitments to lend	$ 2	$ –

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	$ 2,094	$ 2,221	$ 151	$ 2,001	$ 15	$ 1,964	$ 56
Production and intermediate-term	764	736	246	730	6	717	20
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–
Lease receivables	214	214	194	205	2	201	6
Total	$ 3,072	$ 3,171	$ 591	$ 2,936	$ 23	$ 2,882	$ 82
With no related allowance for credit losses:							
Real estate mortgage	$ 3,294	$ 4,052	$ –	$ 3,150	$ 26	$ 3,091	$ 87
Production and intermediate-term	3,969	4,265	–	3,794	30	3,723	106
Farm-related business	27	38	–	26	–	25	1
Rural residential real estate	2	82	–	2	–	2	–
Lease receivables	65	91	–	62	–	61	1
Total	$ 7,357	$ 8,528	$ –	$ 7,034	$ 56	$ 6,902	$ 195
Total impaired loans:							
Real estate mortgage	$ 5,388	$ 6,273	$ 151	$ 5,151	$ 41	$ 5,055	$ 143
Production and intermediate-term	4,733	5,001	246	4,524	36	4,440	126
Farm-related business	27	38	–	26	–	25	1
Rural residential real estate	2	82	–	2	–	2	–
Lease receivables	279	305	194	267	2	262	7
Total	$ 10,429	$ 11,699	$ 591	$ 9,970	$ 79	$ 9,784	$ 277

	December 31, 2021			Year Ended December 31, 2021	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 1,189	$ 1,305	$ 105	$ 1,386	$ 103
Production and intermediate-term	1,129	1,137	279	1,317	98
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Lease receivables	–	–	–	–	–
Total	$ 2,318	$ 2,442	$ 384	$ 2,703	$ 201
With no related allowance for credit losses:					
Real estate mortgage	$ 4,065	$ 4,694	$ –	$ 4,740	$ 353
Production and intermediate-term	3,512	3,771	–	4,095	305
Farm-related business	46	55	–	54	4
Rural residential real estate	15	97	–	17	1
Lease receivables	94	120	–	110	8
Total	$ 7,732	$ 8,737	$ –	$ 9,016	$ 671
Total impaired loans:					
Real estate mortgage	$ 5,254	$ 5,999	$ 105	$ 6,126	$ 456
Production and intermediate-term	4,641	4,908	279	5,412	403
Farm-related business	46	55	–	54	4
Rural residential real estate	15	97	–	17	1
Lease receivables	94	120	–	110	8
Total	$ 10,050	$ 11,179	$ 384	$ 11,719	$ 872

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

	Real Estate Mortgage	**Production and Intermediate-term**	**Agribusiness***	**Communication**	**Power and Water/Waste Disposal**	**Rural Residential Real Estate**	**International**	**Lease Receivables**	**Total**
Activity related to the allowance for credit losses:									
Balance at June 30, 2022	$ 5,099	$ 2,955	$ 272	$ 30	$ –	$ 45	$ 30	$ 30	$ 8,461
Charge-offs	(61)	(1)	–	–	–	–	–	–	(62)
Recoveries	3	–	–	–	–	–	–	–	3
Provision for loan losses	650	(1,084)	513	78	16	8	38	191	410
Balance at September 30, 2022	$ 5,691	$ 1,870	$ 785	$ 108	$ 16	$ 53	$ 68	$ 221	$ 8,812
Balance at December 31, 2021	$ 5,113	$ 3,019	$ 272	$ 30	$ 3	$ 45	$ 30	$ 30	$ 8,542
Charge-offs	(103)	(1)	(2)	–	–	(1)	–	–	(107)
Recoveries	483	11	–	–	–	–	–	–	494
Provision for loan losses	198	(1,159)	515	78	13	9	38	191	(117)
Balance at September 30, 2022	$ 5,691	$ 1,870	$ 785	$ 108	$ 16	$ 53	$ 68	$ 221	$ 8,812
Balance at June 30, 2021	$ 5,119	$ 2,975	$ 267	$ 30	$ 2	$ 44	$ 29	$ 30	$ 8,496
Charge-offs	(253)	(1)	(1)	–	–	–	–	–	(255)
Recoveries	2	90	–	–	–	–	–	–	92
Provision for loan losses	188	(62)	4	–	1	–	1	–	132
Balance at September 30, 2021	$ 5,056	$ 3,002	$ 270	$ 30	$ 3	$ 44	$ 30	$ 30	$ 8,465
Balance at December 31, 2020	$ 6,122	$ 3,581	$ 313	$ 35	$ 3	$ 52	$ 34	$ 92	$ 10,232
Charge-offs	(278)	(644)	(3)	–	–	–	–	–	(925)
Recoveries	18	161	152	–	–	–	–	–	331
Provision for loan losses	(806)	(96)	(192)	(5)	–	(8)	(4)	(62)	(1,173)
Balance at September 30, 2021	$ 5,056	$ 3,002	$ 270	$ 30	$ 3	$ 44	$ 30	$ 30	$ 8,465
Allowance on loans evaluated for impairment:									
Individually	$ 151	$ 246	$ –	$ –	$ –	$ –	$ –	$ 194	$ 591
Collectively	5,540	1,624	785	108	16	53	68	27	8,221
Balance at September 30, 2022	$ 5,691	$ 1,870	$ 785	$ 108	$ 16	$ 53	$ 68	$ 221	$ 8,812
Individually	$ 105	$ 279	$ –	$ –	$ –	$ –	$ –	$ –	$ 384
Collectively	5,008	2,740	272	30	3	45	30	30	8,158
Balance at December 31, 2021	$ 5,113	$ 3,019	$ 272	$ 30	$ 3	$ 45	$ 30	$ 30	$ 8,542
Recorded investment in loans evaluated for impairment:									
Individually	$ 5,398	$ 4,734	$ 27	$ –	$ –	$ 2	$ –	$ 279	$ 10,440
Collectively	776,483	227,684	110,052	15,193	2,193	7,370	9,493	3,743	1,152,211
Balance at September 30, 2022	$ 781,881	$ 232,418	$ 110,079	$ 15,193	$ 2,193	$ 7,372	$ 9,493	$ 4,022	$ 1,162,651
	$ 5,173	$ 4,641	$ 46	$ –	$ –	$ 15	$ –	$ 94	$ 9,969
Collectively	774,927	205,044	62,164	4,334	–	6,412	3,604	4,428	1,060,913
Balance at December 31, 2021	$ 780,100	$ 209,685	$ 62,210	$ 4,334	$ –	$ 6,427	$ 3,604	$ 4,522	$ 1,070,882

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

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

	Three Months Ended September 30, 2022				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 224	$ –	$ 224	
Production and intermediate-term	–	44	–	44	
Total	$ –	$ 268	$ –	$ 268	
Post-modification:					
Real estate mortgage	$ –	$ 224	$ –	$ 224	$ –
Production and intermediate-term	–	44	–	44	–
Total	$ –	$ 268	$ –	$ 268	$ –

	Nine Months Ended September 30, 2022				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 500	$ –	$ 500	
Production and intermediate-term	–	460	–	460	
Total	$ –	$ 960	$ –	$ 960	
Post-modification:					
Real estate mortgage	$ –	$ 500	$ –	$ 500	$ –
Production and intermediate-term	–	460	–	460	–
Total	$ –	$ 960	$ –	$ 960	$ –

	Nine Months Ended September 30, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 31	$ –	$ 31	
Total	$ –	$ 31	$ –	$ 31	
Post-modification:					
Real estate mortgage	$ –	$ 19	$ –	$ 19	$ (12)
Total	$ –	$ 19	$ –	$ 19	$ (12)

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	$ 2,003	$ 2,701	$ 1,057	$ 1,027
Production and intermediate-term	3,712	3,516	933	1,087
Rural residential real estate	–	7	–	–
Total loans	$ 5,715	$ 6,224	$ 1,990	$ 2,114
Additional commitments to lend	$ –	$ –		

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any 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	$ 2,520	$ –	$ (309)	$ 2,211	5.95%

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 2,584	$ 103	$ –	$ 2,687	5.95%

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	–	–	–
After five years through ten years	–	–	–
After ten years	2,520	2,211	5.95
Total	$ 2,520	$ 2,211	5.95%

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

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

	September 30, 2022			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 2,211	$ (309)	$ –	$ –

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

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

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

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 3.46 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 $636 in investments related to other Farm Credit institutions.

Note 4 — Debt

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Employee Benefit Plans:				
Balance at beginning of period	$ (258)	$ (282)	$ (267)	$ (291)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	4	5	13	14
Net current period other comprehensive income	4	5	13	14
Balance at end of period	$ (254)	$ (277)	$ (254)	$ (277)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (4)	$ (5)	$ (13)	$ (14)	See Note 7.
Net amounts reclassified	$ (4)	$ (5)	$ (13)	$ (14)	

(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
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 115	$ 115	$ –	$ –	$ 115
Recurring Assets	$ 115	$ 115	$ –	$ –	$ 115
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 2,481	$ –	$ –	$ 2,481	$ 2,481
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 2,481	$ –	$ –	$ 2,481	$ 2,481
Other Financial Instruments					
Assets:					
Cash	$ 17	$ 17	$ –	$ –	$ 17
Investments in debt securities, held-to-maturity	2,520	–	–	2,211	2,211
Loans	1,141,346	–	–	1,060,252	1,060,252
Other Financial Assets	$ 1,143,883	$ 17	$ –	$ 1,062,463	$ 1,062,480
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 926,478	$ –	$ –	$ 860,938	$ 860,938
Other Financial Liabilities	$ 926,478	$ –	$ –	$ 860,938	$ 860,938

	December 31, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 77	$ 77	$ –	$ –	$ 77
Recurring Assets	$ 77	$ 77	$ –	$ –	$ 77
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,934	$ –	$ –	$ 1,934	$ 1,934
Other property owned	236	–	–	274	274
Nonrecurring Assets	$ 2,170	$ –	$ –	$ 2,208	$ 2,208
Other Financial Instruments					
Assets:					
Cash	$ 49	$ 49	$ –	$ –	$ 49
Investments in debt securities, held-to-maturity	2,584	–	–	2,687	2,687
Loans	1,052,780	–	–	1,039,051	1,039,051
Other Financial Assets	$ 1,055,413	$ 49	$ –	$ 1,041,738	$ 1,041,787
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 836,955	$ –	$ –	$ 825,461	$ 825,461
Other Financial Liabilities	$ 836,955	$ –	$ –	$ 825,461	$ 825,461

Uncertainty in Measurements of Fair Value

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

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

Investments in Debt Securities
The fair values of predominantly all Level 3 investments in debt securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

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

Inputs to Valuation Techniques
Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements
With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 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	$ 152	$ 378	$ 455	$ 1,133
401(k)	128	123	459	419
Other postretirement benefits	83	85	261	257
Total	$ 363	$ 586	$ 1,175	$ 1,809

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 — Merger Activity

On April 11, 2022, the Board of Directors of the Association and AgCarolina Farm Credit, ACA signed a letter of intent to merge the two Associations. The merger is subject to AgFirst, FCA, and shareholder approval. If approved by all required parties, the merger is expected to take effect upon the commencement of business on January 1, 2023.

Note 10 — Subsequent Events

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

Effective November 1, 2022, AgCarolina Farm Credit, ACA and Cape Fear Farm Credit, ACA entered into a transition management agreement (TMA) in anticipation of a merger of the two associations, assuming stockholders of each association approve the merger at special meetings to be held on November 15, 2022. Under the TMA, Evan Kleinhans, Cape Fear's existing CEO, became CEO of AgCarolina as well. In addition, Chuck Hester, Cape Fear's existing CFO, became CFO of AgCarolina, as well. The TMA allows for the appointment of other individuals to concurrently serve as officers of both associations. If the merger is not approved, it is anticipated that the TMA will terminate after a period of time sufficient to allow each association to transition to separate management and staffing.