
Colonial 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 Colonial 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/ Paul B. Franklin, Sr.
Chief Executive Officer

/s/ Diane S. Fowlkes
Chief Financial Officer

/s/ A. Kevin Monahan
Chairman of the Board

November 8, 2022

Report on Internal Control Over Financial Reporting

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

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

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

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

/s/ A. Kevin Monahan
Chairman of the Board

/s/ Paul B. Franklin, Sr.
Chief Executive Officer

/s/ Diane S. Fowlkes
Chief Financial Officer

November 8, 2022

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

(Dollars in thousands)

The following commentary reviews the financial condition and results of operations of *Colonial 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.

COVID-19

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. As the state eased the "stay at home" restrictions, the Association began taking steps to deactivate its Business Continuity Plan. The Association targeted close of business Friday, April 1st to "sunset" the Business Continuity Plan, and given favorable conditions, resumed regular operations on Monday, April 4th.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including livestock operations such as beef cattle, horses, poultry, swine, and dairy farms and various field crops such as soybeans, peanuts, tobacco, cotton, and corn. Other predominant commodities in the portfolio are timber and rural home loans. 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, has somewhat reduced the level of dependency on any single commodity.

The gross loan volume of the Association as of September 30, 2022 was \$777,852, an increase of \$26,773, compared to \$751,079 at December 31, 2021. Net loans outstanding at September 30, 2022 were \$777,120 compared to \$748,454 at December 31, 2021. Net loans accounted for 97.4 percent of total assets at September 30, 2022, compared to 96.7 percent of total assets at December 31, 2021. The increase in gross and net loan volume during the reporting period was due to the normal seasonal increase in working capital loans to farmers.

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 from \$1,032 at December 31, 2021 to \$1,366 at September 30, 2022. This increase was primarily the result of the transfer of one large loan into nonaccrual status.

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 \$732 compared to \$2,625 at December 31, 2021. The September 30, 2022 allowance for loan losses was considered by management to be adequate to cover probable losses. The allowance for loan losses was reduced by \$1,725 due to updated default rates, which more accurately reflected historical losses of the Association. A reserve for undisbursed commitments on operating lines for grain producers is also maintained as a liability on the Consolidated Balance Sheet. This reserve was decreased by \$152 during the quarter ended September 30, 2022. This reserve is a best estimate, as it recognizes both the stress in the row crop segment and the controls in place that make undisbursed commitments less risky than drawn funds.

RESULTS OF OPERATIONS

For the three months ended September 30, 2022

Net income for the three months ended September 30, 2022 totaled \$5,637, an increase of \$1,993 compared to \$3,644 for the same period in 2021. This increase was primarily attributable to a reversal of the allowance for loan losses.

Net interest income decreased by \$44 for the three months ended September 30, 2022, compared to the same period in 2021. Interest income increased by \$844 due to a combination of higher loan volume and higher interest rates. In the three months ended September 30, 2022, nonaccrual interest income decreased by \$308 compared to the same period in 2021. Total interest expense increased by \$888 due to the increase in notes payable to AgFirst.

The Association recorded a reversal of the allowance for loan losses of \$1,742 for the three months ended September 30, 2022 compared to a provision for loan losses of \$143 for the three months ended September 30, 2021. The reversal of the allowance for loan losses in the third quarter of 2022 is the result of adjustments to the default rates to more accurately reflect historical losses in the portfolio, while the increase in the allowance for the third quarter of 2021 was primarily due to an increase in loan volume.

Noninterest income for the three months ended September 30, 2022 totaled \$1,509, compared to \$1,370 for the same period of 2021, an increase of \$139. The increase was attributable to an increase in loan and lease fee income for the period as well as higher patronage from AgFirst.

Noninterest expense for the three months ended September 30, 2022 and September 30, 2021 totaled \$3,479. While the expense for the third quarter of each year was equal, salaries and employee benefits were \$222 less in 2022, primarily due to decreased employee benefits expenses on estimated necessary contributions to the defined benefit pension plan. This was offset by an increase in other operating expenses of \$141 and an increase in Farm Credit System Insurance Fund (FCSIC) premiums of \$71.

For the nine months ended September 30, 2022

Net income for the nine months ended September 30, 2022 totaled \$12,876 as compared to \$10,598 for the same period in 2021, an increase of \$2,339. This increase was primarily related to a reversal of the allowance for loan losses in 2022 and an increase in net interest income.

At September 30, 2022, net interest income increased by \$376 or 1.94 percent compared to September 30, 2021. Interest income on accruing loans increased by \$1,957 and interest expense increased by \$1,486, due to rising interest rates. The Association recorded \$259 less interest on nonaccrual loans for the nine months ended September 30, 2022 compared to the same period in 2021.

The Association recorded a reversal of the allowance for loan losses of \$1,902 for the nine months ended September 30, 2022, compared to provision for loan losses of \$53 for the same period in 2021, a difference of \$1,955. The reversal of the allowance for loan losses in 2022 was primarily the result of adjustments to the default rates to more accurately reflect

historical losses in the portfolio, while the provision for loan losses in 2021 was attributed to an increase in loan volume. Credit quality in both periods was strong.

Noninterest income for the nine months ended September 30, 2022 decreased by \$325 compared to the same period of 2021. The primary cause for the decrease was the receipt of fee income from PPP loans originated in 2021, which was not reoccurring in 2022. Additionally, fewer rural home loans were sold on the secondary market in 2022 resulting in a \$246 decrease in gains on sales of the loans. Patronage refunds from other Farm Credit institutions increased \$198 due to higher notes payable for the comparable periods.

Noninterest expense for the nine months ended September 30, 2022 decreased by \$388 compared to the same period of 2021. The decrease in noninterest expense was primarily attributable to a decrease in employee benefits expenses on estimated necessary contributions to the defined benefit pension plan partially offset by increased FCSIC premiums and other operating expenses in 2022.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. There are separate notes payable for variable rate and fixed rate products. The variable rate note is utilized by the Association to fund variable rate loan advances and operating fund 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 \$584,687, compared to \$556,606 at December 31, 2021. The increase in notes payable of \$28,081 was primarily the result of increased loan volume through September 30, 2022.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2021, nor are any anticipated for 2022 that

would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at September 30, 2022 increased to \$206,142 from the December 31, 2021 total of \$193,309. The increase was primarily attributable to current year's net income.

Total capital stock and participation certificates were \$5,595 on September 30, 2022 compared to \$5,699 on December 31, 2021. The decrease of \$104 was attributable to stock and participation certificates retirements.

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

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

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

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvment, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvment less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital. .

The following sets forth the regulatory capital ratios, which were effective January 1, 2017:

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%	23.46%
Tier 1 Capital	6.0%	2.5%	8.5%	23.46%
Total Capital	8.0%	2.5%	10.5%	23.78%
Permanent Capital Ratio	7.0%	0.0%	7.00%	23.53%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.00%	25.20%
UREE Leverage Ratio	1.5%	0.0%	1.50%	24.48%

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.

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 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 (On			Total
	Due in 2022	or Before June 30,)	Due After June 30, 2023	
Loans	\$ —	\$ 1,470	\$ 20,760	\$ 22,230
Total	\$ —	\$ 1,470	\$ 20,760	\$ 22,230
Note Payable to AgFirst Farm Credit Bank	\$ —	\$ 1,099	\$ 15,525	\$ 16,624
Total	\$ —	\$ 1,099	\$ 15,524	\$ 16,624

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
- Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. - Changes the present incurred loss impairment guidance for loans to an expected loss model. - Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. - Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. - Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. - Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	- Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. - The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: - The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, - An allowance will be established for estimated credit losses on any debt securities, - The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. - The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts, at the adoption date. - The guidance is expected to be adopted January 1, 2023.
<i>ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures</i>	
- This Update responds to feedback received during the Post Implementation Review process conducted by the FASB related to Topic 326. <u>Troubled Debt Restructurings (TDRs) by Creditors</u> - The amendments eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan. <u>Vintage Disclosures—Gross Writeoffs</u> - For public business entities, the amendments in this Update require that an entity disclose current period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.	These amendments will be implemented in conjunction with the adoption of ASU 2016-13.
<i>ASU 2022-03—Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions</i>	
- This Update clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. It also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. - The guidance clarifies accounting principles for measuring the fair value of an equity security subject to a contractual sale restriction and improves current GAAP by reducing diversity in practice, reducing cost and complexity, and increasing comparability of financial information across reporting entities. - The amendments also require certain disclosures for equity securities subject to contractual sale restrictions.	- For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. - For all entities except investment companies, the Update should be applied prospectively with any adjustments from adoption recognized in earnings. - Early adoption is permitted.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-804-746-1252, or writing Diane Fowlkes, Chief Financial Officer, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111, or accessing the website, www.colonialfarmcredit.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.

Colonial 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	\$ 1,184	\$ 44
Loans	777,852	751,079
Allowance for loan losses	(732)	(2,625)
Net loans	777,120	748,454
Loans held for sale	259	388
Accrued interest receivable	6,603	4,936
Equity investments in other Farm Credit institutions	6,179	6,151
Premises and equipment, net	1,920	1,835
Accounts receivable	3,339	11,381
Other assets	1,205	1,177
Total assets	\$ 797,809	\$ 774,366
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 584,687	\$ 556,606
Accrued interest payable	1,501	1,187
Patronage refunds payable	124	18,714
Accounts payable	1,164	974
Advanced conditional payments	2	—
Other liabilities	4,189	3,576
Total liabilities	591,667	581,057
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	5,595	5,699
Unallocated retained earnings	200,827	187,951
Accumulated other comprehensive income (loss)	(280)	(341)
Total members' equity	206,142	193,309
Total liabilities and members' equity	\$ 797,809	\$ 774,366

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

Colonial Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
<i>(dollars in thousands)</i>				
Interest Income				
Loans	\$ 10,243	\$ 9,399	\$ 28,461	\$ 26,771
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	4,386	3,498	11,528	10,161
Net interest income	5,857	5,901	16,933	16,610
Provision for (reversal of) allowance for loan losses	(1,742)	143	(1,902)	53
Net interest income after provision for (reversal of) allowance for loan losses	7,599	5,758	18,835	16,557
Noninterest Income				
Loan fees	158	74	328	694
Fees for financially related services	15	7	41	30
Lease income	71	25	180	82
Patronage refunds from other Farm Credit institutions	1,086	1,021	3,154	2,956
Gains (losses) on sales of rural home loans, net	60	131	216	462
Gains (losses) on sales of premises and equipment, net	—	—	59	(1)
Gains (losses) on other transactions	106	90	87	156
Other noninterest income	13	22	48	59
Total noninterest income	1,509	1,370	4,113	4,438
Noninterest Expense				
Salaries and employee benefits	2,329	2,551	6,887	7,655
Occupancy and equipment	150	145	396	393
Insurance Fund premiums	285	214	822	618
Purchased services	143	133	421	420
Data processing	33	38	109	142
Other operating expenses	539	398	1,435	1,230
Total noninterest expense	3,479	3,479	10,070	10,458
Income before income taxes	5,629	3,649	12,878	10,537
Provision (benefit) for income taxes	(8)	5	2	5
Net income	\$ 5,637	\$ 3,644	\$ 12,876	\$ 10,532
Other comprehensive income net of tax				
Employee benefit plans adjustments	20	22	61	66
Comprehensive income	\$ 5,657	\$ 3,666	\$ 12,937	\$ 10,598

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

Colonial Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	\$ 5,520	\$ 185,679	\$ (450)	\$ 190,749
Comprehensive income		10,532	66	10,598
Capital stock/participation certificates issued/(retired), net	105			105
Patronage distribution adjustment		(1)		(1)
Balance at September 30, 2021	\$ 5,625	\$ 196,210	\$ (384)	\$ 201,451
Balance at December 31, 2021	\$ 5,699	\$ 187,951	\$ (341)	\$ 193,309
Comprehensive income		12,876	61	12,937
Capital stock/participation certificates issued/(retired), net	(104)			(104)
Balance at September 30, 2022	\$ 5,595	\$ 200,827	\$ (280)	\$ 206,142

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

Colonial 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 Colonial 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	\$ 523,142	\$ 514,107
Production and intermediate-term	164,953	159,690
Loans to cooperatives	3,894	4,822
Processing and marketing	30,653	19,761
Farm-related business	4,686	4,521
Communication	3,215	211
Power and water/waste disposal	4,380	290
Rural residential real estate	37,427	44,371
International	5,408	3,306
Lease receivables	94	—
Total loans	\$ 777,852	\$ 751,079

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	\$ 6,623	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,623	\$ —
Production and intermediate-term	16,116	—	4,481	—	—	—	20,597	—
Loans to cooperatives	2,689	—	1,215	—	—	—	3,904	—
Processing and marketing	26,756	—	2,679	—	—	—	29,435	—
Farm-related business	321	—	—	—	—	—	321	—
Communication	3,224	—	—	—	—	—	3,224	—
Power and water/waste disposal	4,394	—	—	—	—	—	4,394	—
International	5,412	—	—	—	—	—	5,412	—
Lease receivables	—	—	94	—	—	—	94	—
Total	\$ 65,535	\$ —	\$ 8,469	\$ —	\$ —	\$ —	\$ 74,004	\$ —

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	\$ 8,889	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8,889	\$ —
Production and intermediate-term	14,526	277	4,789	—	—	—	19,315	277
Loans to cooperatives	3,851	—	982	—	—	—	4,833	—
Processing and marketing	14,904	—	2,707	—	—	—	17,611	—
Farm-related business	321	—	—	—	—	—	321	—
Communication	215	—	—	—	—	—	215	—
Power and water/waste disposal	296	—	—	—	—	—	296	—
International	3,311	—	—	—	—	—	3,311	—
Total	\$ 46,313	\$ 277	\$ 8,478	\$ —	\$ —	\$ —	\$ 54,791	\$ 277

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:			Communication:		
Acceptable	98.88%	98.13%	Acceptable	100.00%	100.00%
OAEM	0.60	1.31	OAEM	—	—
Substandard/doubtful/loss	0.52	0.56	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	98.88%	96.59%	Acceptable	100.00%	100.00%
OAEM	0.56	3.05	OAEM	—	—
Substandard/doubtful/loss	0.56	0.36	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	100.00%	Acceptable	99.05%	99.02%
OAEM	—	—	OAEM	0.70	0.59
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	0.25	0.39
	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%
Farm-related business:			Lease receivables		
Acceptable	100.00%	100.00%	Acceptable	100.00%	—%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	—%
			Total loans:		
			Acceptable	98.96%	97.94%
			OAEM	0.56	1.58
			Substandard/doubtful/loss	0.48	0.48
				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	\$ 2,437	\$ 294	\$ 2,731	\$ 524,472	\$ 527,203
Production and intermediate-term	1,532	39	1,571	165,615	167,186
Loans to cooperatives	—	—	—	3,905	3,905
Processing and marketing	—	—	—	30,719	30,719
Farm-related business	—	—	—	4,712	4,712
Communication	—	—	—	3,215	3,215
Power and water/waste disposal	—	—	—	4,383	4,383
Rural residential real estate	49	—	49	37,561	37,610
International	—	—	—	5,428	5,428
Lease receivables	—	—	—	94	94
Total	\$ 4,018	\$ 333	\$ 4,351	\$ 780,104	\$ 784,455

	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	\$ 3,800	\$ 299	\$ 4,099	\$ 513,300	\$ 517,399
Production and intermediate-term	817	45	862	160,236	161,098
Loans to cooperatives	—	—	—	4,824	4,824
Processing and marketing	—	—	—	19,781	19,781
Farm-related business	—	—	—	4,542	4,542
Communication	—	—	—	211	211
Power and water/waste disposal	—	—	—	290	290
Rural residential real estate	—	—	—	44,556	44,556
International	—	—	—	3,314	3,314
Total	\$ 4,617	\$ 344	\$ 4,961	\$ 751,054	\$ 756,015

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

	September 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	\$ 1,036	\$ 603
Production and intermediate-term	283	344
Rural residential real estate	47	85
Total	<u>\$ 1,366</u>	<u>\$ 1,032</u>
Accruing restructured loans:		
Real estate mortgage	\$ 277	\$ 332
Rural residential real estate	—	15
Total	<u>\$ 277</u>	<u>\$ 347</u>
Accruing loans 90 days or more past due:		
Total	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	\$ 1,643	\$ 1,379
Other property owned	—	—
Total nonperforming assets	<u>\$ 1,643</u>	<u>\$ 1,379</u>
Nonaccrual loans as a percentage of total loans	0.18%	0.14%
Nonperforming assets as a percentage of total loans and other property owned	0.21%	0.18%
Nonperforming assets as a percentage of capital	<u>0.80%</u>	<u>0.71%</u>

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

	September 30, 2022	December 31, 2021
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 868	\$ 689
Past due	498	343
Total	<u>\$ 1,366</u>	<u>\$ 1,032</u>
Impaired accrual loans:		
Restructured	\$ 277	\$ 347
90 days or more past due	—	—
Total	<u>\$ 277</u>	<u>\$ 347</u>
Total impaired loans	<u>\$ 1,643</u>	<u>\$ 1,379</u>
Additional commitments to lend	<u>\$ —</u>	<u>\$ —</u>

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

	September 30, 2022			Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	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
Impaired loans:							
With a related allowance for credit losses:							
Real estate mortgage	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Production and intermediate-term	5	15	4	5	—	5	—
Rural residential real estate	—	—	—	—	—	—	—
Total	<u>\$ 5</u>	<u>\$ 15</u>	<u>\$ 4</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 5</u>	<u>\$ —</u>
With no related allowance for credit losses:							
Real estate mortgage	\$ 1,313	\$ 1,592	\$ —	\$ 1,361	\$ 7	\$ 1,210	\$ 86
Production and intermediate-term	278	719	—	288	2	255	19
Rural residential real estate	47	112	—	49	—	44	3
Total	<u>\$ 1,638</u>	<u>\$ 2,423</u>	<u>\$ —</u>	<u>\$ 1,698</u>	<u>\$ 9</u>	<u>\$ 1,509</u>	<u>\$ 108</u>
Total impaired loans:							
Real estate mortgage	\$ 1,313	\$ 1,592	\$ —	\$ 1,361	\$ 7	\$ 1,210	\$ 86
Production and intermediate-term	283	734	4	293	2	260	19
Rural residential real estate	47	112	—	49	—	44	3
Total	<u>\$ 1,643</u>	<u>\$ 2,438</u>	<u>\$ 4</u>	<u>\$ 1,703</u>	<u>\$ 9</u>	<u>\$ 1,514</u>	<u>\$ 108</u>

	December 31, 2021			Year Ended December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
Impaired loans:						
With a related allowance for credit losses:						
Real estate mortgage	\$ —	\$ —	\$ —	\$ —	\$ —	—
Production and intermediate-term	10	28	19	10		3
Rural residential real estate	—	—	—	—		—
Total	\$ 10	\$ 28	\$ 19	\$ 10		3
With no related allowance for credit losses:						
Real estate mortgage	\$ 935	\$ 1,195	\$ —	\$ 1,007	\$ 276	
Production and intermediate-term	334	853	—	359	98	
Rural residential real estate	100	167	—	108	\$ 29	
Total	\$ 1,369	\$ 2,215	\$ —	\$ 1,474		403
Total impaired loans:						
Real estate mortgage	\$ 935	\$ 1,195	\$ —	\$ 1,007	\$ 276	
Production and intermediate-term	344	881	19	369	101	
Rural residential real estate	100	167	—	108	\$ 29	
Total	\$ 1,379	\$ 2,243	\$ 19	\$ 1,484		406

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	\$ 1,709	\$ 474	\$ 125	\$ 9	\$ 1	\$ 128	\$ 11	\$ —	\$ 2,457
Charge-offs	—	—	—	—	—	—	—	—	—
Recoveries	—	17	—	—	—	—	—	—	17
Provision for loan losses	(1,220)	(332)	(88)	(6)	3	(93)	(6)	—	(1,742)
Balance at September 30, 2022	\$ 489	\$ 159	\$ 37	\$ 3	\$ 4	\$ 35	\$ 5	\$ —	\$ 732
Balance at December 31, 2021	\$ 1,783	\$ 574	\$ 101	\$ 1	\$ 1	\$ 154	\$ 11	\$ —	\$ 2,625
Charge-offs	—	(21)	—	—	—	—	—	—	(21)
Recoveries	—	30	—	—	—	—	—	—	30
Provision for loan losses	(1,294)	(424)	(64)	2	3	(119)	(6)	—	(1,902)
Balance at September 30, 2022	\$ 489	\$ 159	\$ 37	\$ 3	\$ 4	\$ 35	\$ 5	\$ —	\$ 732
Balance at June 30, 2021	\$ 1,705	\$ 537	\$ 101	\$ —	\$ 1	\$ 159	\$ 15	\$ —	\$ 2,518
Charge-offs	—	—	—	—	—	—	—	—	—
Recoveries	—	4	—	—	—	—	—	—	4
Provision for loan losses	91	53	2	1	—	(1)	(3)	—	143
Balance at September 30, 2021	\$ 1,796	\$ 594	\$ 103	\$ 1	\$ 1	\$ 158	\$ 12	\$ —	\$ 2,665
Balance at December 31, 2020	\$ 1,693	\$ 623	\$ 105	\$ —	\$ 2	\$ 161	\$ 12	\$ —	\$ 2,596
Charge-offs	(1)	(11)	—	—	—	—	—	—	(12)
Recoveries	19	9	—	—	—	—	—	—	28
Provision for loan losses	85	(27)	(2)	1	(1)	(3)	—	—	53
Balance at September 30, 2021	\$ 1,796	\$ 594	\$ 103	\$ 1	\$ 1	\$ 158	\$ 12	\$ —	\$ 2,665
Allowance on loans evaluated for impairment:									
Individually	\$ —	\$ 4	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4
Collectively	489	155	37	3	4	35	5	—	728
Balance at September 30, 2022	\$ 489	\$ 159	\$ 37	\$ 3	\$ 4	\$ 35	\$ 5	\$ —	\$ 732
Individually	\$ —	\$ 19	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 19
Collectively	1,783	555	101	1	1	154	11	—	2,606
Balance at December 31, 2021	\$ 1,783	\$ 574	\$ 101	\$ 1	\$ 1	\$ 154	\$ 11	\$ —	\$ 2,625
Recorded investment in loans evaluated for impairment:									
Individually	\$ 1,313	\$ 283	\$ —	\$ —	\$ —	\$ 47	\$ —	\$ —	\$ 1,643
Collectively	525,890	166,903	39,336	3,215	4,383	37,563	5,428	94	782,812
Balance at September 30, 2022	\$ 527,203	\$ 167,186	\$ 39,336	\$ 3,215	\$ 4,383	\$ 37,610	\$ 5,428	\$ 94	\$ 784,455
Individually	\$ 935	\$ 344	\$ —	\$ —	\$ —	\$ 100	\$ —	\$ —	\$ 1,379
Collectively	516,464	160,754	29,147	211	290	44,456	3,314	—	754,636
Balance at December 31, 2021	\$ 517,399	\$ 161,098	\$ 29,147	\$ 211	\$ 290	\$ 44,556	\$ 3,314	\$ —	\$ 756,015

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs that occurred during the three- and nine-month periods ended September 30, 2022.

Three Months Ended September 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ —	\$ 209	\$ —	\$ 209	
Total	\$ —	\$ 209	\$ —	\$ 209	
Post-modification:					
Production and intermediate-term	\$ —	\$ 240	\$ —	\$ 240	\$ (4)
Total	\$ —	\$ 240	\$ —	\$ 240	\$ (4)

Nine Months Ended September 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ —	\$ 1	\$ —	\$ 1	
Production and intermediate-term	—	209	3	212	
Processing and marketing	—	43	—	43	
Total	\$ —	\$ 253	\$ 3	\$ 256	
Post-modification:					
Real estate mortgage	\$ —	\$ 1	\$ —	\$ 1	\$ —
Production and intermediate-term	—	240	3	243	(4)
Processing and marketing	—	43	—	43	—
Total	\$ —	\$ 284	\$ 3	\$ 287	\$ (4)

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	\$ 357	\$ 438	\$ 80	\$ 106
Production and intermediate-term	262	291	262	291
Rural residential real estate	47	69	47	54
Total loans	\$ 666	\$ 798	\$ 389	\$ 451
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 2.22 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 \$484 in investments related to other Farm Credit institutions.

Note 4 — Debt

Notes payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Employee Benefit Plans:				
Balance at beginning of period	\$ (300)	\$ (406)	\$ (341)	\$ (450)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	20	22	61	66
Net current period other comprehensive income	20	22	61	66
Balance at end of period	\$ (280)	\$ (384)	\$ (280)	\$ (384)

	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	\$ (20)	\$ (22)	\$ (61)	\$ (66)	See Note 7.
Net amounts reclassified	\$ (20)	\$ (22)	\$ (61)	\$ (66)	

(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		\$ 757	\$ 757	\$ –	\$ –	\$ 757
Recurring Assets		\$ 757	\$ 757	\$ –	\$ –	\$ 757
Liabilities:						
Recurring Liabilities		\$ –	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans		\$ 1	\$ –	\$ –	\$ 1	\$ 1
Other property owned		–	–	–	–	–
Nonrecurring Assets		\$ 1	\$ –	\$ –	\$ 1	\$ 1
<u>Other Financial Instruments</u>						
Assets:						
Cash		\$ 1,184	\$ 1,184	\$ –	\$ –	\$ 1,184
Loans		777,378	–	–	725,264	725,264
Other Financial Assets		\$ 778,562	\$ 1,184	\$ –	\$ 725,264	\$ 726,448
Liabilities:						
Notes payable to AgFirst Farm Credit Bank		\$ 584,687	\$ –	\$ –	\$ 541,496	\$ 541,496
Other Financial Liabilities		\$ 584,687	\$ –	\$ –	\$ 541,496	\$ 541,496
		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		\$ 875	\$ 875	\$ –	\$ –	\$ 875
Recurring Assets		\$ 875	\$ 875	\$ –	\$ –	\$ 875
Liabilities:						
Recurring Liabilities		\$ –	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans		\$ –	\$ –	\$ –	\$ –	\$ –
Other property owned		–	–	–	–	–
Nonrecurring Assets		\$ –	\$ –	\$ –	\$ –	\$ –
<u>Other Financial Instruments</u>						
Assets:						
Cash		\$ 44	\$ 44	\$ –	\$ –	\$ 44
Loans		748,842	–	–	749,738	749,738
Other Financial Assets		\$ 748,886	\$ 44	\$ –	\$ 749,738	\$ 749,782
Liabilities:						
Notes payable to AgFirst Farm Credit Bank		\$ 556,606	\$ –	\$ –	\$ 555,652	\$ 555,652
Other Financial Liabilities		\$ 556,606	\$ –	\$ –	\$ 555,652	\$ 555,652

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	\$ 335	\$ 629	\$ 1,003	\$ 1,886
401(k)	102	100	358	337
Other postretirement benefits	59	54	173	153
Total	\$ 496	\$ 783	\$ 1,534	\$ 2,376

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.