



SOUTHERN AGCREDIT

Financial Solutions for Agriculture

**Stockholders' Quarterly Financial Report
For the Quarter Ended September 30, 2022**

REPORT OF MANAGEMENT

The consolidated financial statements of Southern AgCredit, ACA (association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The board of directors has overall responsibility for the association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations.

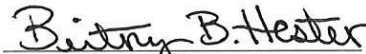
The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.



Phillip D. Morgan, CPA
Chief Executive Officer
November 9, 2022



Bryan "Scott" Bell
Chairman, Board of Directors
November 9, 2022



Britny B. Hester, CPA
Chief Financial Officer
November 9, 2022

SOUTHERN AGCREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Southern AgCredit, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended September 30, 2022. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2021 Annual Report to Stockholders.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the association's audit committee.

Significant Events:

In December 2021, the association's board of directors declared a patronage in the amount of \$22,839,184 to stockholders, including \$11,232,746 to be paid in cash, and \$ 11,606,438 in the form of non-qualified allocated equity on behalf of the individual stockholders and retained by the association. Nonqualified allocated equities retained by the association assures the cooperative has adequate capital to continue supporting rural communities and agriculture with reliable, consistent credit and financial services. Nonqualified allocated equities are not taxable to the stockholder. The cash patronage was disbursed to the association stockholders in February 2022. The 2021 cash patronage is a record return of earnings to the stockholders of the association and represents on average a 1 percent reduction in borrowers loan interest rate.

Throughout the pandemic, the association continued to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Despite these turbulent times, demand for retail loans has been historically high and credit quality in the association has remained strong. However, after a prolonged pandemic period that has been characterized by both supply chain disruptions and geopolitical conflicts which have impacted the availability and prices of relevant agricultural inputs, volatility in risk ratings and portfolio yields is likely in future periods.

In an effort to improve the association's operating efficiency and customer service capacity, a lot was purchased, and construction has started on a new office building in Ridgeland, MS, that will house the Ridgeland branch and administrative offices. The board and management of the association believe that the construction of a new office building improves upon the association's continuing commitment to provide its borrowers with the highest quality of customer service.

The association continues to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio:

Total loans outstanding at September 30, 2022, including nonaccrual loans and sales contracts, were \$1,361,596,928 compared to \$1,289,284,462 at December 31, 2021, reflecting an increase of 5.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.1 percent at September 30, 2022, compared to 0.2 percent at December 31, 2021.

The association recorded no recoveries and \$11,873 in charge-offs for the quarter ended September 30, 2022, and \$16,165 in recoveries and \$0 in charge-offs for the same period in 2021. The association's allowance for loan losses was 0.1 percent and 0.1 percent of total loans outstanding as of September 30, 2022, and December 31, 2021, respectively.

Agribusiness Loan Program

The association utilizes the Mississippi Development Authority's Agribusiness Enterprise Loan Program (ABE) to lower the cost of financing for its borrowers. The ABE loan program is designed to provide a percentage of low-cost state financing that is combined with private financial lending institutions' loan proceeds to encourage loans to the agribusiness industry in the state.

The association guarantees payment of the borrower's ABE loan to the Mississippi Development Authority (MDA) and, therefore, the amount of ABE loans outstanding and due to MDA is included in "Loans" on the consolidated balance sheet with an offsetting liability at "Guaranteed obligations to government entities." ABE loans totaled \$12,487,332 and \$13,826,284 as of September 30, 2022 and December 31, 2021, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association's components and trends of high-risk assets.

	September 30, 2022		December 31, 2021	
	Amount	%	Amount	%
Nonaccrual	\$ 903,764	58.2%	\$ 2,291,400	68.9%
Formally restructured	637,838	41.0%	653,162	19.7%
Other property owned, net	12,300	0.8%	379,732	11.4%
Total	<u>\$ 1,553,902</u>	<u>100.0%</u>	<u>\$ 3,324,294</u>	<u>100.0%</u>

The balance of nonaccrual volume as of September 30, 2022 is primarily secured by real estate with a total specific allowance of \$119,902 related to two loans. The decrease in nonaccrual volume since the prior year end is due to the foreclosure on two unrelated properties, the payoff of one nonaccrual loan, reinstatements from nonaccrual to accrual status, and scheduled principal payments during the period.

The balance of other property owned as of September 30, 2022, consists of two unrelated properties. The decrease in other property owned is primarily due to the sale of two properties during the period.

Investments:

During 2010, the association exchanged \$35,192,440 of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transactions since the loans were at a market rate, guaranteed by Farmer Mac and the servicing fee adequately compensates the association for the cost to service the loans. These Agricultural Mortgage-backed Securities (AMBS) are included in the association's Consolidated Balance Sheet as held-to-maturity investments at an amortized cost balance of 1,238,093 at September 30, 2022. The association continues to service the loans included in those transactions.

Results of Operations:

The association had net income of \$6,387,533 and \$18,563,356 for the three and nine months ended September 30, 2022, as compared to net income of \$5,721,724 and \$17,402,080 for the same period in 2021, reflecting an increase of 11.5 percent and 6.6 percent. Net interest income was \$8,191,217 and \$24,091,826 for the three and nine months ended September 30, 2022, compared to \$7,649,847 and \$22,840,786 for the same period in 2021.

	Nine Months Ended:			
	September 30, 2022		September 30, 2021	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 1,309,780,667	\$ 41,997,912	\$ 1,221,474,631	\$ 37,593,167
Investments	1,681,131	56,578	2,976,947	90,045
Total interest-earning assets	1,311,461,798	42,054,490	1,224,451,578	37,683,212
Interest-bearing liabilities	1,130,507,663	17,962,664	1,049,056,283	14,842,426
Impact of capital	\$ 180,954,135		\$ 175,395,295	
Net interest income		\$ 24,091,826		\$ 22,840,786

	2022	2021
	Average Yield	Average Yield
Yield on loans	4.29%	4.11%
Yield on investments	4.50%	4.04%
Total yield on interest-earning assets	4.29%	4.11%
Cost of interest-bearing liabilities	2.12%	1.89%
Interest rate spread	2.17%	2.22%
Net interest income as a percentage of average earning assets	2.46%	2.49%

	Nine months ended:		
	September 30, 2022 vs. September 30, 2021		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 2,717,812	\$ 1,686,933	\$ 4,404,745
Interest income - investments	(39,195)	5,728	(33,467)
Total interest income	2,678,617	1,692,661	4,371,278
Interest expense	1,152,385	1,967,853	3,120,238
Net interest income	\$ 1,526,232	\$ (275,192)	\$ 1,251,040

Interest income for the three and nine months ended September 30, 2022, increased by \$2,444,823 and \$4,371,278, or 19.3 percent and 11.6 percent, respectively, from the same period of 2021, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2022, increased by \$1,903,453 and \$3,120,238, or 37.8 percent and 21.0 percent, from the same period of 2021 due to an increase in average debt volume and an increase in average portfolio interest rate. Average loan volume for the third quarter of 2022 was \$1,309,780,667, compared to \$1,221,474,631 in the third quarter of 2021. The average net interest rate spread on the loan portfolio for the third quarter of 2022 was 2.17 percent, compared to 2.22 percent in the third quarter of 2021.

The association's return on average assets for the nine months ended September 30, 2022, was 1.79 percent compared to 1.84 percent for the same period in 2021. The association's return on average equity for the nine months ended September 30, 2022, was 12.10 percent, compared to 12.09 percent for the same period in 2021.

Liquidity and Funding Sources:

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

	September 30, 2022	December 31, 2021
Note payable to the bank	\$ 1,181,703,711	\$ 1,101,513,838
Accrued interest on note payable	2,391,525	1,782,169
Total	<u>\$ 1,184,095,236</u>	<u>\$ 1,103,296,007</u>

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of \$1,181,703,711 as of September 30, 2022, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.55 percent at September 30, 2022. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2021, is due to increased borrowing needs at the association. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were \$163,466,345 at September 30, 2022. The maximum amount the association may borrow from the bank as of September 30, 2022, was \$1,325,000,000 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

Capital Resources:

The association's capital position increased by \$18,724,911 at September 30, 2022 compared to December 31, 2021. The association's debt as a percentage of members' equity was 5.61:1 as of September 30, 2022, compared to 5.81:1 as of December 31, 2021.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2022, the association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

Refer to Note 1 – "Organization and Significant Accounting Policies" in this quarterly report for disclosures of recent accounting pronouncements which may impact the association's consolidated financial position and results of operations and for critical accounting policies.

Relationship With the Farm Credit Bank of Texas:

The association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2021 Annual Report of Southern AgCredit, ACA more fully describe the association's relationship with the bank.

The annual and quarterly stockholder reports of the bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the bank are also available on its website at www.farmcreditbank.com.

The association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Southern AgCredit, ACA, 402 West Parkway Place, Ridgeland, MS 39157 or calling 601-499-2820. The annual and quarterly stockholder reports for the association are also available on its website at www.southernagcredit.com. Copies of the association's quarterly stockholder reports can also be requested by e-mailing dlsouthernagcreditadmin@farmcreditbank.com.

SOUTHERN AGCREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	September 30, 2022 (unaudited)	December 31, 2021
<u>ASSETS</u>		
Cash	\$ 17,193	\$ 8,532
Investments	1,238,093	2,508,354
Loans	1,361,596,928	1,289,284,462
Less: allowance for loan losses	1,713,068	1,642,986
Net loans	<u>1,359,883,860</u>	<u>1,287,641,476</u>
Accrued interest receivable		
Loans	11,780,441	9,081,198
Investments	14,363	30,806
Investment in and receivable from the Farm		
Credit Bank of Texas:		
Capital stock	21,136,680	21,136,680
Other	7,015,350	812,853
Other property owned, net	12,300	379,732
Premises and equipment, net	16,006,653	11,288,274
Other assets	1,256,487	1,058,108
Total assets	<u><u>\$ 1,418,361,420</u></u>	<u><u>\$ 1,333,946,013</u></u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 1,181,703,711	\$ 1,101,513,838
Guaranteed obligations to government entities	12,487,332	13,826,284
Advance conditional payments	99,292	119,292
Accrued interest payable	2,391,525	1,782,169
Drafts outstanding	260,224	134,851
Patronage distributions payable	-	11,232,746
Other liabilities	6,934,527	9,576,935
Total liabilities	<u>1,203,876,611</u>	<u>1,138,186,115</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	5,202,195	5,030,515
Additional paid-in capital	10,238,891	10,238,891
Unallocated retained earnings	199,255,951	180,692,595
Accumulated other comprehensive income (loss)	(212,228)	(202,103)
Total members' equity	<u>214,484,809</u>	<u>195,759,898</u>
Total liabilities and members' equity	<u><u>\$ 1,418,361,420</u></u>	<u><u>\$ 1,333,946,013</u></u>

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<u>INTEREST INCOME</u>				
Loans	\$ 15,113,121	\$ 12,657,191	\$ 41,997,912	\$ 37,593,167
Investments	15,432	26,539	56,578	90,045
Total interest income	<u>15,128,553</u>	<u>12,683,730</u>	<u>42,054,490</u>	<u>37,683,212</u>
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	6,937,200	5,033,835	17,962,293	14,842,288
Advance conditional payments	136	48	371	138
Total interest expense	<u>6,937,336</u>	<u>5,033,883</u>	<u>17,962,664</u>	<u>14,842,426</u>
Net interest income	<u>8,191,217</u>	<u>7,649,847</u>	<u>24,091,826</u>	<u>22,840,786</u>
<u>PROVISION FOR LOAN LOSSES</u>				
	<u>90,821</u>	<u>128,363</u>	<u>98,430</u>	<u>322,251</u>
Net interest income after provision for loan losses	<u>8,100,396</u>	<u>7,521,484</u>	<u>23,993,396</u>	<u>22,518,535</u>
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	2,054,058	1,690,809	6,115,812	5,032,023
Loan fees	99,944	124,715	305,280	350,766
Financially related services income	157	147	674	438
Gain (loss) on other property owned, net	-	(40,443)	(10,351)	(46,371)
Gain (loss) on sale of premises and equipment, net	6,732	-	6,732	1,633
Other noninterest income	1,193	689	70,669	45,458
Total noninterest income	<u>2,162,084</u>	<u>1,775,917</u>	<u>6,488,816</u>	<u>5,383,947</u>
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,944,557	1,876,621	5,976,883	5,452,789
Occupancy and equipment	352,253	315,917	1,070,177	1,047,661
Insurance Fund premiums	509,777	369,680	1,492,106	1,094,051
Other components of net periodic postretirement benefit cost	34,149	36,876	102,447	110,628
Other noninterest expense	1,034,211	976,583	3,277,243	2,795,273
Total noninterest expenses	<u>3,874,947</u>	<u>3,575,677</u>	<u>11,918,856</u>	<u>10,500,402</u>
Income before income taxes	<u>6,387,533</u>	<u>5,721,724</u>	<u>18,563,356</u>	<u>17,402,080</u>
NET INCOME	<u>6,387,533</u>	<u>5,721,724</u>	<u>18,563,356</u>	<u>17,402,080</u>
Other comprehensive income:				
Change in postretirement benefit plans	(3,375)	(186)	(10,125)	(558)
Other comprehensive income, net of tax	(3,375)	(186)	(10,125)	(558)
COMPREHENSIVE INCOME	<u>\$ 6,384,158</u>	<u>\$ 5,721,538</u>	<u>\$ 18,553,231</u>	<u>\$ 17,401,522</u>

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	\$ 4,811,195	\$ 10,238,891	\$ 168,801,991	\$ (429,264)	\$ 183,422,813
Comprehensive income	-	-	17,402,080	(558)	17,401,522
Capital stock/participation certificates and allocated retained earnings issued	795,470				795,470
Capital stock/participation certificates and allocated retained earnings retired	(624,760)				(624,760)
Balance at September 30, 2021	<u>\$ 4,981,905</u>	<u>\$ 10,238,891</u>	<u>\$ 186,204,071</u>	<u>\$ (429,822)</u>	<u>\$ 200,995,045</u>
Balance at December 31, 2021	\$ 5,030,515	\$ 10,238,891	\$ 180,692,595	\$ (202,103)	\$ 195,759,898
Comprehensive income	-	-	18,563,356	(10,125)	18,553,231
Capital stock/participation certificates and allocated retained earnings issued	690,615				690,615
Capital stock/participation certificates and allocated retained earnings retired	(518,935)				(518,935)
Balance at September 30, 2022	<u>\$ 5,202,195</u>	<u>\$ 10,238,891</u>	<u>\$ 199,255,951</u>	<u>\$ (212,228)</u>	<u>\$ 214,484,809</u>

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

SOUTHERN AGCREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Southern AgCredit, ACA, including its wholly-owned subsidiaries, Southern AgCredit, PCA and Southern AgCredit, FLCA (collectively called “the association”), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Adams, Amite, Carroll, Claiborne, Clarke, Copiah, Covington, Forrest, Franklin, George, Greene, Grenada, Hancock, Harrison, Hinds, Holmes, Humphreys, Issaquena, Jackson, Jasper, Jefferson, Jefferson Davis, Jones, Kemper, Lamar, Lauderdale, Lawrence, Leake, Leflore, Lincoln, Madison, Marion, Montgomery, Neshoba, Newton, Pearl River, Perry, Pike, Rankin, Scott, Sharkey, Simpson, Smith, Stone, Walthall, Warren, Washington, Wayne, Wilkinson and Yazoo in the state of Mississippi, as well as the parishes of Bienville, Bossier, Caddo, Claiborne, DeSoto, Jackson, Lincoln, Ouachita (west of Ouachita River), Red River, Union and Webster in the state of Louisiana. In addition, the association is the single owner of Parkway Place Investments, LLC, which was organized for the purpose of holding and managing foreclosed property for which the assets, liabilities and results of operation have been consolidated in the association’s financial statements. The association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2022. Descriptions of the significant accounting policies are included in the 2021 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In March 2022, the Financial Accounting Standards Board (FASB) issued an update entitled, “Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures.” The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. In addition to the TDR guidance, the update requires public business entities to disclose current period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments will be effective for the association at the time of adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost, which reflects management’s estimate of expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to held-to maturity securities and depending on the situation available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, including this entity, this guidance becomes effective for interim and annual reporting periods beginning after December 15, 2022. The association continues to evaluate the impact of adoption on the association’s financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended September 30, 2022, are not necessarily indicative of the results to be expected for the year ended December 31, 2022. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

The association may hold mission-related and other investments. The Farm Credit Administration approves mission-related programs and other mission-related investments. In January 2010, \$35,192,440 of agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

	September 30, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 1,238,093	\$ -	\$ 41,498	\$ 1,196,595	5.07%

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 2,508,354	\$ 16,341	\$ -	\$ 2,524,695	4.17%

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

<u>Loan Type</u>	<u>September 30, 2022 Amount</u>	<u>December 31, 2021 Amount</u>
Production agriculture:		
Real estate mortgage	\$ 1,123,468,172	\$ 1,076,396,011
Production and intermediate term	133,273,225	117,711,254
Agribusiness:		
Loans to cooperatives	6,834,959	3,881,936
Processing and marketing	43,793,834	42,034,505
Farm-related business	9,420,829	8,772,893
Communication	24,257,931	22,736,063
Energy	11,592,647	12,107,618
Water and waste water	4,394,085	1,336,337
Rural residential real estate	2,933,980	2,680,872
Agricultural export finance	1,627,266	1,626,973
Total	<u>\$ 1,361,596,928</u>	<u>\$ 1,289,284,462</u>

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2022:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 16,830,027	\$ 917,259	\$ 74,400	\$ -	\$ 16,904,427	\$ 917,259
Production and intermediate term	23,287,794	35,649,517	-	-	23,287,794	35,649,517
Agribusiness	59,696,995	-	-	-	59,696,995	-
Communication	24,257,931	-	-	-	24,257,931	-
Energy	11,592,647	-	-	-	11,592,647	-
Water and waste water	4,394,085	-	-	-	4,394,085	-
Agricultural export finance	1,627,266	-	-	-	1,627,266	-
Total	<u>\$ 141,686,745</u>	<u>\$ 36,566,776</u>	<u>\$ 74,400</u>	<u>\$ -</u>	<u>\$ 141,761,145</u>	<u>\$ 36,566,776</u>

The association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were \$99,292 and \$119,292 at September 30, 2022, and December 31, 2021, respectively.

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	September 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	\$ 767,494	\$ 2,291,400
Production and intermediate term	136,270	-
Total nonaccrual loans	<u>903,764</u>	<u>2,291,400</u>
Accruing restructured loans:		
Real estate mortgage	570,124	580,346
Production and intermediate term	67,714	72,816
Total accruing restructured loans	<u>637,838</u>	<u>653,162</u>
Total nonperforming loans	<u>1,541,602</u>	<u>2,944,562</u>
Other property owned	12,300	379,732
Total nonperforming assets	<u>\$ 1,553,902</u>	<u>\$ 3,324,294</u>

One credit quality indicator utilized by the association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2022		December 31, 2021	
Real estate mortgage				
Acceptable	99.01	%	98.67	%
OAEM	0.65		0.85	
Substandard/doubtful	0.34		0.48	
	100.00		100.00	
Production and intermediate term				
Acceptable	99.85		99.94	
OAEM	0.05		0.06	
Substandard/doubtful	0.10		-	
	100.00		100.00	
Loans to cooperatives				
Acceptable	100.00		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.00		100.00	
Processing and marketing				
Acceptable	96.99		96.83	
OAEM	-		-	
Substandard/doubtful	3.01		3.17	
	100.00		100.00	
Farm-related business				
Acceptable	100.00		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.00		100.00	
Communication				
Acceptable	100.00		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.00		100.00	
Energy				
Acceptable	100.00		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.00		100.00	
Water and waste water				
Acceptable	100.00		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.00		100.00	
Rural residential real estate				
Acceptable	100.00		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.00		100.00	
Agricultural export finance				
Acceptable	100.00		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.00		100.00	
Total loans				
Acceptable	99.06		98.78	
OAEM	0.55		0.72	
Substandard/doubtful	0.39		0.50	
	100.00	%	100.00	%

The following tables provide an age analysis of past due loans (including accrued interest) as of:

<u>September 30, 2022</u>	30-89 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	\$ 1,931,205	\$ 129,691	\$ 2,060,896	\$ 1,131,606,736	\$ 1,133,667,631
Production and intermediate term	1,389,278	136,270	1,525,548	133,140,231	134,665,779
Loans to cooperatives	-	-	-	6,848,951	6,848,951
Processing and marketing	-	-	-	43,890,073	43,890,073
Farm-related business	-	-	-	9,463,769	9,463,769
Communication	-	-	-	24,262,468	24,262,468
Energy	-	-	-	11,600,010	11,600,010
Water and waste water	-	-	-	4,402,741	4,402,741
Rural residential real estate	-	-	-	2,944,419	2,944,419
Agricultural export finance	-	-	-	1,631,527	1,631,527
Total	\$ 3,320,483	\$ 265,961	\$ 3,586,444	\$ 1,369,790,925	\$ 1,373,377,369

<u>December 31, 2021</u>	30-89 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	\$ 4,109,506	\$ 813,428	\$ 4,922,934	\$ 1,079,594,552	\$ 1,084,517,486
Production and intermediate term	451,878	-	451,878	118,105,877	118,557,755
Loans to cooperatives	-	-	-	3,883,200	3,883,200
Processing and marketing	-	-	-	42,114,935	42,114,935
Farm-related business	-	-	-	8,787,247	8,787,247
Communication	-	-	-	22,737,538	22,737,538
Energy	-	-	-	12,112,148	12,112,148
Water and waste water	-	-	-	1,336,396	1,336,396
Rural residential real estate	-	-	-	2,690,312	2,690,312
Agricultural export finance	-	-	-	1,628,643	1,628,643
Total	\$ 4,561,384	\$ 813,428	\$ 5,374,812	\$ 1,292,990,848	\$ 1,298,365,660

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

A restructuring of a debt constitutes a troubled debt restructuring 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. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of September 30, 2022, the total recorded investment of troubled debt restructured loans was \$904,413, including \$266,575 classified as nonaccrual and \$637,838 classified as accrual, with no specific reserve. There were no commitments to lend funds to borrowers whose loan terms have been modified in a trouble debt restructuring as of September 30, 2022 and December 31, 2021.

There were no troubled debt restructurings occurring during the three months ended September 30, 2022 and 2021, respectively. The balance of loans formally restructured prior to January 1, 2022, was \$946,987. In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The predominant form of concession granted for troubled debt restructuring includes extension of terms and interest rate decreases. Types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
Real estate mortgage	\$ 836,699	\$ 874,172	\$ 266,575	\$ 293,825
Production and intermediate term	67,714	72,815	-	-
Total	<u>\$ 904,413</u>	<u>\$ 946,987</u>	<u>\$ 266,575</u>	<u>\$ 293,825</u>

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	September 30, 2022			December 31, 2021		
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 76,614	\$ 76,614	\$ 27,237	\$ 432,024	\$ 438,234	\$ 44,555
Production and intermediate term	95,099	95,099	92,665	-	-	-
Total	<u>\$ 171,713</u>	<u>\$ 171,713</u>	<u>\$ 119,902</u>	<u>\$ 432,024</u>	<u>\$ 438,234</u>	<u>\$ 44,555</u>
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 1,258,558	\$ 1,277,040	\$ -	\$ 2,437,695	\$ 2,438,627	\$ -
Production and intermediate term	108,562	113,112	-	72,326	72,928	-
Total	<u>\$ 1,367,120</u>	<u>\$ 1,390,152</u>	<u>\$ -</u>	<u>\$ 2,510,021</u>	<u>\$ 2,511,555</u>	<u>\$ -</u>
Total impaired loans:						
Real estate mortgage	\$ 1,335,172	\$ 1,353,654	\$ 27,237	\$ 2,869,719	\$ 2,876,861	\$ 44,555
Production and intermediate term	203,661	208,211	92,665	72,326	72,928	-
Total	<u>\$ 1,538,833</u>	<u>\$ 1,561,865</u>	<u>\$ 119,902</u>	<u>\$ 2,942,045</u>	<u>\$ 2,949,789</u>	<u>\$ 44,555</u>

^a Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2022		September 30, 2021		September 30, 2022		September 30, 2021	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	\$ 77,809	\$ -	\$ 1,854,841	\$ -	\$ 80,447	\$ 81,898	\$ 1,163,165	\$ -
Production and intermediate term	71,696	-	-	-	24,161	-	-	-
Total	<u>\$ 149,505</u>	<u>\$ -</u>	<u>\$ 1,854,841</u>	<u>\$ -</u>	<u>\$ 104,608</u>	<u>\$ 81,898</u>	<u>\$ 1,163,165</u>	<u>\$ -</u>
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	\$1,290,083	\$ 8,863	\$ 2,754,493	\$ 16,130	\$1,335,913	\$ 25,063	\$ 2,402,479	\$ 145,427
Production and intermediate term	99,784	1,058	164,682	1,471	75,131	2,867	135,314	8,348
Total	<u>\$1,389,867</u>	<u>\$ 9,921</u>	<u>\$ 2,919,175</u>	<u>\$ 17,601</u>	<u>\$1,411,044</u>	<u>\$ 27,930</u>	<u>\$ 2,537,793</u>	<u>\$ 153,775</u>
Total impaired loans:								
Real estate mortgage	\$1,367,892	\$ 8,863	\$ 4,609,334	\$ 16,130	\$1,416,360	\$ 106,961	\$ 3,565,644	\$ 145,427
Production and intermediate term	171,480	1,058	164,682	1,471	75,131	2,867	135,314	8,348
Total	<u>\$1,539,372</u>	<u>\$ 9,921</u>	<u>\$ 4,774,016</u>	<u>\$ 17,601</u>	<u>\$1,491,491</u>	<u>\$ 109,828</u>	<u>\$ 3,700,958</u>	<u>\$ 153,775</u>

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Allowance for Credit Losses:								
Balance at June 30, 2022	\$ 1,305,413	\$ 177,299	\$ 134,687	\$ 15,443	\$ 4,765	\$ 3,740	\$ 1,305	\$ 1,642,652
Charge-offs	(11,873)	-	-	-	-	-	-	(11,873)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(19,103)	122,552	(11,277)	(508)	(143)	68	(768)	90,821
Other	(14,200)	(1,546)	6,439	1	-	-	774	(8,532)
Balance at September 30, 2022	<u>\$ 1,260,236</u>	<u>\$ 298,305</u>	<u>\$ 129,849</u>	<u>\$ 14,936</u>	<u>\$ 4,622</u>	<u>\$ 3,808</u>	<u>\$ 1,311</u>	<u>\$ 1,713,068</u>
Balance at December 31, 2021	\$ 1,278,016	\$ 200,424	\$ 141,102	\$ 14,727	\$ 3,207	\$ 4,223	\$ 1,287	\$ 1,642,986
Charge-offs	(11,873)	-	-	-	-	-	-	(11,873)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	8,293	106,323	(15,527)	210	277	(415)	(732)	98,430
Other	(14,200)	(8,442)	4,274	(1)	1,138	-	756	(16,475)
Balance at September 30, 2022	<u>\$ 1,260,236</u>	<u>\$ 298,305</u>	<u>\$ 129,849</u>	<u>\$ 14,936</u>	<u>\$ 4,622</u>	<u>\$ 3,808</u>	<u>\$ 1,311</u>	<u>\$ 1,713,068</u>
Ending Balance:								
Individually evaluated for impairment	\$ 27,237	\$ 92,665	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 119,902
Collectively evaluated for impairment	1,232,999	205,640	129,849	14,936	4,622	3,808	1,311	1,593,165
Balance at September 30, 2022	<u>\$ 1,260,236</u>	<u>\$ 298,305</u>	<u>\$ 129,849</u>	<u>\$ 14,936</u>	<u>\$ 4,622</u>	<u>\$ 3,808</u>	<u>\$ 1,311</u>	<u>\$ 1,713,068</u>
Balance at June 30, 2021	\$ 1,336,190	\$ 136,870	\$ 134,369	\$ 15,333	\$ 5,438	\$ 4,156	\$ 1,431	\$ 1,633,787
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	16,165	-	-	-	-	-	-	16,165
Provision for loan losses	81,087	39,260	9,252	(917)	(156)	(159)	(6)	128,363
Other	(474)	3,009	(6,736)	(58)	(2,046)	-	(139)	(6,444)
Balance at September 30, 2021	<u>\$ 1,432,969</u>	<u>\$ 179,140</u>	<u>\$ 136,885</u>	<u>\$ 14,359</u>	<u>\$ 3,236</u>	<u>\$ 3,997</u>	<u>\$ 1,286</u>	<u>\$ 1,771,872</u>
Balance at December 30, 2020	\$ 1,141,229	\$ 138,280	\$ 173,548	\$ 15,295	\$ 15,543	\$ 3,017	\$ -	\$ 1,486,911
Charge-offs	(47,617)	-	-	-	-	-	-	(47,617)
Recoveries	16,165	-	-	-	-	-	-	16,165
Provision for loan losses	323,665	32,382	(30,179)	(914)	(5,688)	980	2,005	322,251
Other	(474)	8,478	(6,484)	(22)	(6,619)	-	(719)	(5,839)
Balance at September 30, 2021	<u>\$ 1,432,969</u>	<u>\$ 179,140</u>	<u>\$ 136,885</u>	<u>\$ 14,359</u>	<u>\$ 3,236</u>	<u>\$ 3,997</u>	<u>\$ 1,286</u>	<u>\$ 1,771,872</u>
Ending Balance:								
Individually evaluated for impairment	\$ 235,277	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 235,277
Collectively evaluated for impairment	1,197,691	179,140	136,885	14,359	3,236	3,997	1,286	1,536,595
Balance at September 30, 2021	<u>\$ 1,432,969</u>	<u>\$ 179,140</u>	<u>\$ 136,885</u>	<u>\$ 14,359</u>	<u>\$ 3,236</u>	<u>\$ 3,997</u>	<u>\$ 1,286</u>	<u>\$ 1,771,872</u>
Recorded Investments in Loans Outstanding:								
Ending Balance at								
September 30, 2022	<u>\$1,133,667,631</u>	<u>\$ 134,665,779</u>	<u>\$ 60,202,793</u>	<u>\$ 24,262,468</u>	<u>\$ 16,002,751</u>	<u>\$ 2,944,419</u>	<u>\$ 1,631,527</u>	<u>\$1,373,377,369</u>
Individually evaluated for impairment								
	<u>\$ 1,337,619</u>	<u>\$ 203,983</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,541,602</u>
Collectively evaluated for impairment								
	<u>\$1,132,330,013</u>	<u>\$ 134,461,794</u>	<u>\$ 60,202,793</u>	<u>\$ 24,262,468</u>	<u>\$ 16,002,751</u>	<u>\$ 2,944,419</u>	<u>\$ 1,631,527</u>	<u>\$1,371,835,766</u>
Ending Balance at								
September 30, 2021	<u>\$1,073,826,299</u>	<u>\$ 112,695,606</u>	<u>\$ 53,897,973</u>	<u>\$ 22,225,040</u>	<u>\$ 13,696,292</u>	<u>\$ 2,597,170</u>	<u>\$ 1,628,397</u>	<u>\$1,280,566,777</u>
Individually evaluated for impairment								
	<u>\$ 4,594,557</u>	<u>\$ 164,973</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,759,530</u>
Collectively evaluated for impairment								
	<u>\$1,069,231,743</u>	<u>\$ 112,530,633</u>	<u>\$ 53,897,973</u>	<u>\$ 22,225,040</u>	<u>\$ 13,696,292</u>	<u>\$ 2,597,170</u>	<u>\$ 1,628,397</u>	<u>\$1,275,807,248</u>

NOTE 4 — CAPITAL:

The association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of September 30, 2022
Common equity tier 1 ratio	7.00%	13.93%
Tier 1 capital ratio	8.50%	13.93%
Total capital ratio	10.50%	14.05%
Permanent capital ratio	7.00%	13.94%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	13.60%
UREE leverage ratio	1.50%	8.66%

The details for the amounts used in the calculation of the regulatory capital ratios as of September 30, 2022:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	87,808,938	87,808,938	87,808,938	87,808,938
Paid-in capital	10,238,891	10,238,891	10,238,891	10,238,891
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	5,167,075	5,167,075	5,167,075	5,167,075
Other required member purchased stock held <5 years				
Other required member purchased stock held ≥ 5 years but < 7 years				
Other required member purchased stock held ≥ 7 years				
Allocated equities:				
Allocated equities held <5 years				
Allocated equities held ≥ 5 years but < 7 years				
Allocated equities held ≥ 7	62,452,680	62,452,680	62,452,680	62,452,680
Nonqualified allocated equities not subject to retirement	41,540,108	41,540,108	41,540,108	41,540,108
Non-cumulative perpetual preferred stock		-	-	-
Other preferred stock subject to certain limitations			-	-
Subordinated debt subject to certain limitation				
Allowance for loan losses and reserve for credit losses subject to certain limitations			1,699,125	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(21,136,680)	(21,136,680)	(21,136,680)	(21,136,680)
Other regulatory required deductions	-	-	-	-
	186,071,012	186,071,012	187,770,137	186,071,012
Denominator:				
Risk-adjusted assets excluding allowance	1,357,342,919	1,357,342,919	1,357,342,919	1,357,342,919
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(21,136,680)	(21,136,680)	(21,136,680)	(21,136,680)
Allowance for loan losses				(1,635,808)
	1,336,206,239	1,336,206,239	1,336,206,239	1,334,570,431

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	87,808,938	87,808,938
Paid-in capital	10,238,891	10,238,891
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	5,167,075	-
Other required member purchased stock held <5 years		
Other required member purchased stock held ≥ 5 years but < 7 years		
Other required member purchased stock held ≥ 7 years		
Allocated equities:		
Allocated equities held <5 years		
Allocated equities held ≥ 5 years but < 7 years		
Allocated equities held ≥ 7	62,452,680	-
Nonqualified allocated equities not subject to retirement	41,540,108	41,540,108
Non-cumulative perpetual preferred stock	-	
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitation		
Allowance for loan losses and reserve for credit losses subject to certain limitations		
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(21,136,680)	(21,136,680)
Other regulatory required deductions	-	-
	<u>186,071,012</u>	<u>118,451,257</u>
Denominator:		
Total Assets	1,395,778,035	1,395,778,035
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(27,319,919)	(27,319,919)
	<u>1,368,458,116</u>	<u>1,368,458,116</u>

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the nine months ended September 31:

	<u>2022</u>	<u>2021</u>
Accumulated other comprehensive income (loss) at January 1	\$ (202,103)	\$ (429,264)
Amortization of actuarial (gain) loss included in salaries and employee benefits	<u>(10,125)</u>	<u>(558)</u>
Other comprehensive income (loss), net of tax	<u>(10,125)</u>	<u>(558)</u>
Accumulated other comprehensive income (loss) at September 30	<u>\$ (212,228)</u>	<u>\$ (429,822)</u>

NOTE 5 — INCOME TAXES:

Southern AgCredit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Southern AgCredit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Southern AgCredit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended September 30, 2022 and 2021, the net accrued tax liability/benefit was \$0.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 to the 2021 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a nonrecurring basis are summarized below:

<u>September 30, 2022</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets held in nonqualified benefit trusts	257,645	-	-	257,645

<u>December 31, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets held in nonqualified benefit trusts	281,315	-	-	281,315

<u>September 30, 2022</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 291,616	\$ 291,616
Other property owned	-	-	7,800	7,800

<u>December 31, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 387,468	\$ 387,468
Other property owned	-	-	357,200	357,200

Valuation Techniques

As more fully discussed in Note 14 to the 2021 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the association's assets and liabilities. For a more complete description, see Notes to the 2021 Annual Report to Stockholders.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three and nine months ended September 30:

Three months ended September 30:

	Other Benefits	
	2022	2021
Service cost	\$ 9,950	\$ 11,047
Interest cost	27,574	26,017
Amortization of prior service (credits) costs	(3,375)	(3,375)
Amortization of net actuarial (gain) loss	-	3,187
Net periodic benefit cost	<u>\$ 34,149</u>	<u>\$ 36,876</u>

Nine months ended September 30:

	Other Benefits	
	2022	2021
Service cost	\$ 29,850	\$ 33,141
Interest cost	82,721	78,049
Amortization of prior service (credits) costs	(10,124)	(10,124)
Amortization of net actuarial (gain) loss	-	9,562
Net periodic benefit cost	<u>\$ 102,447</u>	<u>\$ 110,628</u>

The association's liability for the unfunded accumulated obligation for these benefits at September 30, 2022, was \$3,589,683 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2021, that it expected to contribute \$370,908 to the district's defined benefit pension plan in 2022. As of September 30, 2022, \$278,181 of contributions have been made. The association presently anticipates contributing an additional \$92,727 to fund the defined benefit pension plan in 2022 for a total of \$370,908.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At September 30, 2022, \$108,675,702 of commitments and \$261,084 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. Therefore, the association has recognized an estimated risk loss liability, included on the balance sheet with other liabilities, determined on the same basis as the allowance for loan loss is determined. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 9 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through November 9, 2022, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 9, 2022.