AgCarolina 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 AgCarolina 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.

B. Derek Potter
Chairman of the Board

Evan Kleinhans
Chief Executive Officer

Charles M. Hester
Chief Financial Officer

November 8, 2022

AgCarolina Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

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

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

Evan Kleinhans
Chief Executive Officer

Charles M. Hester
Chief Financial Officer

November 8, 2022

AgCarolina Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgCarolina Farm Credit, ACA (Association) for the six months ended September 30, 2022. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2021 annual report of the Association.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The five predominant commodities in the portfolio are forestry, tobacco, soybeans, corn, and rural rental real estate, which constitute $712,887 or 51.63 percent, of the net loan portfolio as of September 30, 2022. Other major farm commodities include poultry, cotton, and sweet potatoes. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on a given commodity.

The net loan volume of the Association as of September 30, 2022 was $1,367,704, an increase of $100,328 or 7.92 percent as compared to $1,267,376 at December 31, 2021. Net loans accounted for 96.00 percent of total assets at September 30, 2022 as compared to 94.99 percent of total assets at December 31, 2021. The increase in net loan volume during the reporting period is primarily attributed to seasonal lending. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak in August and declines in the fall and winter months as farm commodities are marketed and proceeds are applied to the operating loans.

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 $10,720 at December 31, 2021 to $11,724 on September 30, 2022. The balance has increased due to a couple large transfers into nonaccrual status.

Association management maintains an allowance for loan losses at a level 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 $13,079, as compared to $13,484 at December 31, 2021, a decrease of $405. The main reason for this decrease was a decrease in general reserves. The ratio of the allowance for loan losses to total loans at September 30, 2022 was 0.95 percent, which was slightly lower than the prior year end. The allowance was considered by management to be adequate to cover possible losses.

Other property owned was zero as of September 30, 2022, which was consistent when compared to the balance at December 31, 2021.

RESULTS OF OPERATIONS

For the three months ended September 30, 2022

Net income for the three months ended September 30, 2022 totaled $6,141, an increase of $666 or 12.16 percent, as compared to the same period of 2021. The primary reason for the increase in net income as compared to the previous period is due to an increase in net interest income.

For the three months ended September 30, 2022, total interest income increased by $2,789 compared to the same period of 2021. The increase in interest income is due to an increase in loan volume and an increase in interest rates. Interest income from nonaccrual loans was $57 for the three months ended September 30, 2022, a decrease of $518 from the same period of 2021. Interest expense increased $2,434 for the three months ended September 30, 2022, as compared to the same period of 2021. The increase in interest expense is mainly attributed to an increase in loan volume.

Noninterest income for the three months ended September 30, 2022 totaled $2,403 as compared to $2,463 for the same period of 2021, a decrease of $60. The overall decrease is primarily due to a decrease in fee income related to PPP loans. Loan fees and fees for financially related services decreased a combined $32 for the period as compared to the prior year.

Noninterest expense for the three months ended September 30, 2022 was $5,806, an increase of $70, or 1.22 percent as compared to the same period of 2021. This increase is mostly due to merger related expenses.

For the nine months ended September 30, 2022

Net income for the nine months ended September 30, 2022 totaled $17,980, an increase of $1,063, or 6.28 percent, as compared to the same period of 2021. The primary reason for the increase in net income was an increase in net interest income. At September 30, 2022, total interest income increased by $5,875 compared to the same period in 2021. The increase in interest income is mainly due to an increase in loan volume and an increase in interest rates.

Interest income from nonaccrual loans was $752 as of September 30, 2022, a decrease of $26 from the same period of 2021. Interest expense increased $4,041 for the first nine months in 2022, as compared to the same period of 2021. The increase in interest expense is attributed to an increase in loan volume.

Noninterest income for the nine months ended September 30, 2022 totaled $8,849 as compared to $10,722 for the same period of 2021, a decrease of $1,873. The decrease is primarily due to a decrease in fee income related to PPP loans.

Noninterest expense for the nine months ended September 30, 2022 was $17,415, a decrease of $319 as compared to the same period of 2021. Salaries and employee benefits totaled $11,127 for the nine months ended September 30, 2022, for a decrease of $1,637 or 12.83 percent, as compared to the same period of 2021. The decrease is primarily due to multiple employees retiring in the prior year.

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with AgFirst Farm Credit Bank (Bank) and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association.

The total notes payable to the Bank at September 30, 2022 was $1,091,259 as compared to $1,001,022 at December 31, 2021. The 9.01 percent increase during the period was a result of an increase in loan volume.

The Association has no lines of credit outstanding with third parties as of September 30, 2022.

CAPITAL RESOURCES

Total members' equity at September 30, 2022, increased 8.70 percent to $319,453 from the December 31, 2021, total of $293,892. The increase is attributed to the net of an increase in retained earnings related to net income and an increase in preferred stock. Preferred stock was $40,272 as of September 30, 2022, as compared to $32,426 on December 31, 2021, for an increase of 24.20 percent.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum capital ratios, which are shown in the table below. As of September 30, 2022, all capital ratios were well above the minimum regulatory requirements.

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.

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%	19.27%
Tier 1 Capital	6.0%	2.5%	8.5%	19.27%
Total Capital	8.0%	2.5%	10.5%	20.27%
Permanent Capital Ratio	7.0%	0.0%	7.0%	22.47%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	18.78%
UREE Leverage Ratio	1.5%	0.0%	1.5%	18.48%

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

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.

LIBOR Transition

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

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):

<table>
<tr><th>Summary of Guidance</th><th>Adoption and Potential Financial Statement Impact</th></tr>
<tr><td colspan="2">ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</td></tr>
<tr><td>• 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.</td><td>• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance.
• The new guidance is expected to result in a change in allowance for credit losses due to several factors, including:
1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,
2. An allowance will be established for estimated credit losses on any debt securities,
3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.
• The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts, at the adoption date.
• The guidance is expected to be adopted January 1, 2023.</td></tr>
<tr><td colspan="2">ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures</td></tr>
<tr><td>• 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.</td><td>• These amendments will be implemented in conjunction with the adoption of ASU 2016-13.</td></tr>
<tr><td colspan="2">ASU 2022-03—Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions</td></tr>
<tr><td>• 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.</td><td>• 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.</td></tr>
</table>

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 1-919-250-9500, writing Charles M. Hester, AgCarolina Farm Credit, ACA, P. O. Box 14789, Raleigh, NC 27620, or accessing the website, *www.agcarolina.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.

AgCarolina Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	**September 30, 2022** *(unaudited)*	**December 31, 2021** *(audited)*
Assets		
Cash	**$ 4**	$ 6
Loans	**1,380,783**	1,280,860
Allowance for loan losses	**(13,079)**	(13,484)
Net loans	**1,367,704**	1,267,376
Accrued interest receivable	**20,693**	14,535
Equity investments in other Farm Credit institutions	**10,971**	10,909
Premises and equipment, net	**15,161**	15,568
Accounts receivable	**6,595**	21,307
Other assets	**3,568**	4,567
Total assets	**$ 1,424,696**	$ 1,334,268
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,091,259**	$ 1,001,022
Accrued interest payable	**2,621**	1,782
Patronage refunds payable	**12**	25,555
Accounts payable	**2,217**	1,724
Advanced conditional payments	**41**	126
Other liabilities	**9,093**	10,167
Total liabilities	**1,105,243**	1,040,376
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	**44,461**	36,457
Retained earnings		
Allocated	**186,657**	177,724
Unallocated	**88,335**	79,711
Total members' equity	**319,453**	293,892
Total liabilities and members' equity	**$ 1,424,696**	$ 1,334,268

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

AgCarolina Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2022	For the Three Months Ended September 30, 2021	For the Nine Months Ended September 30, 2022	For the Nine Months Ended September 30, 2021
Interest Income				
Loans	**$ 16,749**	$ 13,960	**$ 44,709**	$ 38,834
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**7,640**	5,206	**18,594**	14,553
Net interest income	**9,109**	8,754	**26,115**	24,281
Provision for (reversal of) allowance for loan losses	**(444)**	1	**(444)**	347
Net interest income after provision for (reversal of) allowance for loan losses	**9,553**	8,753	**26,559**	23,934
Noninterest Income				
Loan fees	**507**	530	**2,186**	4,343
Fees for financially related services	**1**	10	**15**	63
Patronage refunds from other Farm Credit institutions	**2,290**	2,028	**6,564**	5,953
Gains (losses) on sales of premises and equipment, net	**85**	94	**1,236**	330
Gains (losses) on other transactions	**(480)**	(199)	**(1,154)**	33
Other noninterest income	**—**	—	**2**	—
Total noninterest income	**2,403**	2,463	**8,849**	10,722
Noninterest Expense				
Salaries and employee benefits	**3,473**	3,957	**11,127**	12,764
Occupancy and equipment	**255**	265	**803**	768
Insurance Fund premiums	**535**	391	**1,487**	1,094
Purchased services	**543**	211	**980**	587
Data processing	**83**	98	**287**	338
Other operating expenses	**917**	814	**2,731**	2,182
(Gains) losses on other property owned, net	**—**	—	**—**	1
Total noninterest expense	**5,806**	5,736	**17,415**	17,734
Income before income taxes	**6,150**	5,480	**17,993**	16,922
Provision for income taxes	**9**	5	**13**	5
Net income	**$ 6,141**	$ 5,475	**$ 17,980**	$ 16,917
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 6,141**	$ 5,475	**$ 17,980**	$ 16,917

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

AgCarolina Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings: Allocated	Retained Earnings: Unallocated	Total Members' Equity
Balance at December 31, 2020	$ 33,400	$ 177,724	$ 69,718	$ 280,842
Comprehensive income			16,917	16,917
Capital stock/participation certificates issued/(retired), net	10,441			10,441
Dividends declared/paid	124		(124)	—
Balance at September 30, 2021	$ 43,965	$ 177,724	$ 86,511	$ 308,200
Balance at December 31, 2021	**$ 36,457**	**$ 177,724**	**$ 79,711**	**$ 293,892**
Comprehensive income			**17,980**	**17,980**
Capital stock/participation certificates issued/(retired), net	**7,837**			**7,837**
Dividends declared/paid	**167**		**(167)**	**—**
Patronage distribution adjustment		**8,933**	**(9,189)**	**(256)**
Balance at September 30, 2022	**$ 44,461**	**$ 186,657**	**$ 88,335**	**$ 319,453**

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

AgCarolina 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 AgCarolina Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A full description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2021, are contained in the 2021 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

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

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

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

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 5, *Fair Value Measurement*). Actual results could differ from those estimates.

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

Accounting Standards Effective During the Period
There were no changes in the accounting principles applied from the latest Annual Report.

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	September 30, 2022	December 31, 2021
Real estate mortgage	$ 780,307	$ 755,579
Production and intermediate-term	474,651	423,382
Loans to cooperatives	3,141	2,595
Processing and marketing	64,777	50,684
Farm-related business	16,005	14,760
Communication	3,003	(2)
Power and water/waste disposal	400	310
Rural residential real estate	35,811	33,552
International	2,688	–
Total loans	$ 1,380,783	$ 1,280,860

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	$ 13,188	$ 29,813	$ –	$ –	$ –	$ –	$ 13,188	$ 29,813
Production and intermediate-term	22,433	50,485	4,385	163,462	–	–	26,818	213,947
Loans to cooperatives	3,147	–	–	–	–	–	3,147	–
Processing and marketing	28,329	25,520	1,476	–	–	–	29,805	25,520
Farm-related business	299	–	83	–	–	–	382	–
Communication	3,011	–	–	–	–	–	3,011	–
Power and water/waste disposal	403	–	–	–	–	–	403	–
International	2,690	–	–	–	–	–	2,690	–
Total	$ 73,500	$ 105,818	$ 5,944	$ 163,462	$ –	$ –	$ 79,444	$ 269,280

	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	$ 10,807	$ 27,923	$ –	$ –	$ –	$ –	$ 10,807	$ 27,923
Production and intermediate-term	22,423	53,892	3,947	163,038	–	–	26,370	216,930
Loans to cooperatives	2,601	–	–	–	–	–	2,601	–
Processing and marketing	16,251	25,573	1,116	–	–	–	17,367	25,573
Farm-related business	268	27	118	–	–	–	386	27
Power and water/waste disposal	311	–	–	–	–	–	311	–
Total	$ 52,661	$ 107,415	$ 5,181	$ 163,038	$ –	$ –	$ 57,842	$ 270,453

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

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

	September 30, 2022	December 31, 2021
Real estate mortgage:		
Acceptable	95.50%	93.31%
OAEM	3.53	4.62
Substandard/doubtful/loss	0.97	2.07
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	93.63%	91.34%
OAEM	4.32	5.78
Substandard/doubtful/loss	2.05	2.88
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	97.14%	94.85%
OAEM	2.86	1.85
Substandard/doubtful/loss	–	3.30
	100.00%	100.00%
Farm-related business:		
Acceptable	99.76%	99.61%
OAEM	0.24	0.39
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	September 30, 2022	December 31, 2021
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Power and water/waste disposal		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.88%	98.52%
OAEM	1.12	1.47
Substandard/doubtful/loss	–	0.01
	100.00%	100.00%
International:		
Acceptable	100.00%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	–%
Total loans:		
Acceptable	95.09%	92.94%
OAEM	3.65	4.75
Substandard/doubtful/loss	1.26	2.31
	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	$ 2,526	$ 2,679	$ 5,205	$ 786,836	$ 792,041
Production and intermediate-term	3,283	377	3,660	479,421	483,081
Loans to cooperatives	–	–	–	3,146	3,146
Processing and marketing	–	–	–	65,032	65,032
Farm-related business	–	–	–	16,138	16,138
Communication	–	–	–	3,004	3,004
Power and water/waste disposal	–	–	–	401	401
Rural residential real estate	59	–	59	35,886	35,945
International	–	–	–	2,688	2,688
Total	$ 5,868	$ 3,056	$ 8,924	$ 1,392,552	$ 1,401,476

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	$ 829	$ 771	$ 1,600	$ 762,763	$ 764,363
Production and intermediate-term	625	222	847	427,884	428,731
Loans to cooperatives	–	–	–	2,597	2,597
Processing and marketing	–	–	–	50,895	50,895
Farm-related business	43	–	43	14,790	14,833
Communication	–	–	–	(2)	(2)
Power and water/waste disposal	–	–	–	310	310
Rural residential real estate	–	–	–	33,668	33,668
Total	$ 1,497	$ 993	$ 2,490	$ 1,292,905	$ 1,295,395

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

	September 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	$ 4,857	$ 3,260
Production and intermediate-term	6,867	5,775
Processing and marketing	–	1,680
Rural residential real estate	–	5
Total	$ 11,724	$ 10,720
Accruing restructured loans:		
Real estate mortgage	$ 1,894	$ 2,932
Production and intermediate-term	536	640
Total	$ 2,430	$ 3,572
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 14,154	$ 14,292
Other property owned	–	–
Nonperforming assets	$ 14,154	$ 14,292
Nonaccrual loans as a percentage of total loans	0.85%	0.84%
Nonperforming assets as a percentage of total loans and other property owned	1.03%	1.12%
Nonperforming assets as a percentage of capital	4.43%	4.86%

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	$ 8,537	$ 9,610
Past due	3,187	1,110
Total	$ 11,724	$ 10,720
Impaired accrual loans:		
Restructured	$ 2,430	$ 3,572
90 days or more past due	–	–
Total	$ 2,430	$ 3,572
Total impaired loans	$ 14,154	$ 14,292
Additional commitments to lend	$ 10	$ 4,300

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

	September 30, 2022			Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	$ 2,266	$ 2,265	$ 84	$ 2,316	$ 14	$ 2,344	$ 137
Production and intermediate-term	6,383	8,328	1,904	6,522	39	6,602	388
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 8,649	$ 10,593	$ 1,988	$ 8,838	$ 53	$ 8,946	$ 525
With no related allowance for credit losses:							
Real estate mortgage	$ 4,485	$ 6,334	$ –	$ 4,582	$ 27	$ 4,638	$ 273
Production and intermediate-term	1,020	1,573	–	1,043	7	1,055	61
Rural residential real estate	–	93	–	–	–	–	–
Total	$ 5,505	$ 8,000	$ –	$ 5,625	$ 34	$ 5,693	$ 334
Total impaired loans:							
Real estate mortgage	$ 6,751	$ 8,599	$ 84	$ 6,898	$ 41	$ 6,982	$ 410
Production and intermediate-term	7,403	9,901	1,904	7,565	46	7,657	449
Rural residential real estate	–	93	–	–	–	–	–
Total	$ 14,154	$ 18,593	$ 1,988	$ 14,463	$ 87	$ 14,639	$ 859

Impaired loans:	December 31, 2021 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2021 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	5,237	6,826	1,659	8,247	573
Processing and marketing	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 5,237	$ 6,826	$ 1,659	$ 8,247	$ 573
With no related allowance for credit losses:					
Real estate mortgage	$ 6,192	$ 7,924	$ –	$ 9,752	$ 677
Production and intermediate-term	1,178	2,338	–	1,855	128
Processing and marketing	1,680	1,700	–	2,646	184
Rural residential real estate	5	104	–	7	1
Total	$ 9,055	$ 12,066	$ –	$ 14,260	$ 990
Total impaired loans:					
Real estate mortgage	$ 6,192	$ 7,924	$ –	$ 9,752	$ 677
Production and intermediate-term	6,415	9,164	1,659	10,102	701
Processing and marketing	1,680	1,700	–	2,646	184
Rural residential real estate	5	104	–	7	1
Total	$ 14,292	$ 18,892	$ 1,659	$ 22,507	$ 1,563

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	Total
Activity related to the allowance for credit losses:								
Balance at June 30, 2022	$ 6,854	$ 5,613	$ 718	$ 26	$ 3	$ 305	$ –	$ 13,519
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	–	4	–	–	–	–	–	4
Provision for loan losses	(502)	110	(50)	(2)	–	(21)	21	(444)
Balance at September 30, 2022	$ 6,352	$ 5,727	$ 668	$ 24	$ 3	$ 284	$ 21	$ 13,079
Balance at December 31, 2021	$ 6,977	$ 5,573	$ 624	$ –	$ 3	$ 307	$ –	$ 13,484
Charge-offs	(70)	(10)	–	–	–	–	–	(80)
Recoveries	12	107	–	–	–	–	–	119
Provision for loan losses	(567)	57	44	24	–	(23)	21	(444)
Balance at September 30, 2022	$ 6,352	$ 5,727	$ 668	$ 24	$ 3	$ 284	$ 21	$ 13,079
Balance at June 30, 2021	$ 7,099	$ 6,449	$ 638	$ 16	$ –	$ 313	$ –	$ 14,515
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	40	13	–	–	–	–	–	53
Provision for loan losses	32	109	(126)	(16)	3	(1)	–	1
Balance at September 30, 2021	$ 7,171	$ 6,571	$ 512	$ –	$ 3	$ 312	$ –	$ 14,569
Balance at December 31, 2020	$ 6,942	$ 6,193	$ 594	$ 17	$ –	$ 325	$ –	$ 14,071
Charge-offs	(3)	(54)	–	–	–	–	–	(57)
Recoveries	91	117	–	–	–	–	–	208
Provision for loan losses	141	315	(82)	(17)	3	(13)	–	347
Balance at September 30, 2021	$ 7,171	$ 6,571	$ 512	$ –	$ 3	$ 312	$ –	$ 14,569
Allowance on loans evaluated for impairment:								
Individually	$ 84	$ 1,904	$ –	$ –	$ –	$ –	$ –	$ 1,988
Collectively	6,268	3,823	668	24	3	284	21	11,091
Balance at September 30, 2022	$ 6,352	$ 5,727	$ 668	$ 24	$ 3	$ 284	$ 21	$ 13,079
Individually	$ –	$ 1,659	$ –	$ –	$ –	$ –	$ –	$ 1,659
Collectively	6,977	3,914	624	–	3	307	–	11,825
Balance at December 31, 2021	$ 6,977	$ 5,573	$ 624	$ –	$ 3	$ 307	$ –	$ 13,484
Recorded investment in loans evaluated for impairment:								
Individually	$ 6,751	$ 7,403	$ –	$ –	$ –	$ –	$ –	$ 14,154
Collectively	785,290	475,678	84,316	3,004	401	35,945	2,688	1,387,322
Balance at September 30, 2022	$ 792,041	$ 483,081	$ 84,316	$ 3,004	$ 401	$ 35,945	$ 2,688	$ 1,401,476
Individually	$ 6,192	$ 6,415	$ 1,680	$ –	$ –	$ 5	$ –	$ 14,292
Collectively	758,171	422,316	66,645	(2)	310	33,663	–	1,281,103
Balance at December 31, 2021	$ 764,363	$ 428,731	$ 68,325	$ (2)	$ 310	$ 33,668	$ –	$ 1,295,395

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

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

	Nine Months Ended September 30, 2022				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 32	$ –	$ –	$ 32	
Production and intermediate-term	–	5,270	–	5,270	
Total	$ 32	$ 5,270	$ –	$ 5,302	
Post-modification:					
Real estate mortgage	$ 32	$ –	$ –	$ 32	$ –
Production and intermediate-term	–	5,308	–	5,308	–
Total	$ 32	$ 5,308	$ –	$ 5,340	$ –

	Three Months Ended September 30, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 29	$ –	$ 29	
Total	$ –	$ 29	$ –	$ 29	
Post-modification:					
Production and intermediate-term	$ –	$ 29	$ –	$ 29	$ –
Total	$ –	$ 29	$ –	$ 29	$ –

	Nine Months Ended September 30, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 40	$ 1,026	$ 1,066	
Production and intermediate-term	–	5,707	456	6,163	
Total	$ –	$ 5,747	$ 1,482	$ 7,229	
Post-modification:					
Real estate mortgage	$ –	$ 40	$ 1,050	$ 1,090	$ (10)
Production and intermediate-term	–	7,606	457	8,063	(15)
Total	$ –	$ 7,646	$ 1,507	$ 9,153	$ (25)

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.

The following table presents the outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Defaulted troubled debt restructurings:				
Real estate mortgage	$ 900	$ –	$ 900	$ –
Production and intermediate-term	3,994	–	3,994	–
Total	$ 4,894	$ –	$ 4,894	$ –

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	$ 3,548	$ 3,748	$ 1,654	$ 816
Production and intermediate-term	5,566	5,996	5,030	5,356
Total loans	$ 9,114	$ 9,744	$ 6,684	$ 6,172
Additional commitments to lend	$ –	$ 2,000		

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 3.99 percent of the issued stock of the Bank as of September 30, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled $41.7 billion and shareholders' equity totaled $1.6 billion. The Bank's earnings were $313 million for the first nine months of 2022. In addition, the Association held investments of $728 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Fair Value Measurement

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

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

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

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

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities could also include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

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

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

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

	September 30, 2022				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets held in trust funds	$ 3,501	$ 3,501	$ –	$ –	$ 3,501
Recurring Assets	$ 3,501	$ 3,501	$ –	$ –	$ 3,501
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans*	$ 6,773	$ –	$ –	$ 6,773	$ 6,773
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 6,773	$ –	$ –	$ 6,773	$ 6,773
Other Financial Instruments					
Assets:					
Cash	$ 4	$ 4	$ –	$ –	$ 4
Loans	1,360,931	–	–	1,261,556	1,261,556
Accounts receivable	6,595	6,595	–	–	6,595
Other Financial Assets	$ 1,367,530	$ 6,599	$ –	$ 1,261,556	$ 1,268,155
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,091,259	$ –	$ –	$ 1,022,497	$ 1,022,497
Other Financial Liabilities	$ 1,091,259	$ –	$ –	$ 1,022,497	$ 1,022,497

	December 31, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 4,436	$ 4,436	$ –	$ –	$ 4,436
Recurring Assets	$ 4,436	$ 4,436	$ –	$ –	$ 4,436
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans**	$ 3,778	$ –	$ –	$ 3,778	$ 3,778
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 3,778	$ –	$ –	$ 3,778	$ 3,778
Other Financial Instruments					
Assets:					
Cash	$ 6	$ 6	$ –	$ –	$ 6
Loans	1,263,598	–	–	1,245,703	1,245,703
Accounts receivable	21,307	21,307	–	–	21,307
Other Financial Assets	$ 1,284,911	$ 21,313	$ –	$ 1,245,703	$ 1,267,016
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,001,022	$ –	$ –	$ 991,411	$ 991,411
Other Financial Liabilities	$ 1,001,022	$ –	$ –	$ 991,411	$ 991,411

**Carrying value of impaired loans is the balance of loans with a related specific reserve ($8,649) less related specific reserves ($1,988) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($112).*

***Carrying value of impaired loans is the balance of loans with a related specific reserve ($5,237) less related specific reserves ($1,659) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($200).*

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
Accounts receivable	Carrying value	Par/principal
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 6 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Pension	$ 225	$ 527	$ 674	$ 1,580
401(k)	183	196	712	687
Other postretirement benefits	96	92	293	281
Total	$ 504	$ 815	$ 1,679	$ 2,548

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

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

Note 7 — Commitments and Contingent Liabilities

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

Note 8 — Merger Activity

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

Note 9 — Subsequent Events

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

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