Carolina Farm Credit, ACA

THIRD QUARTER 2022

TABLE OF CONTENTS

CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2022, quarterly report of Carolina 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.

Vance C Dalton Jr

Vance C. Dalton, Jr.
Chief Executive Officer

Christopher H. Scott

Christopher H. Scott
Chief Financial Officer

Vickie N. Smitherman

Vickie N. Smitherman
Chair of the Board

November 8, 2022

Carolina 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.

Vance C Dalton Jr

Vance C. Dalton, Jr.
Chief Executive Officer

Christopher H. Scott

Christopher H. Scott
Chief Financial Officer

November 8, 2022

Carolina Farm Credit, ACA

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

(dollars in thousands, unless otherwise noted)

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

LOAN PORTFOLIO

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

The gross loan volume of the Association as of September 30, 2022, was $1,864,822, an increase of $78,411, as compared to $1,786,411 at December 31, 2021. Net loans outstanding at September 30, 2022, were $1,859,868, as compared to $1,780,317 at December 31, 2021. Net loans accounted for 96.27% of total assets at September 30, 2022, as compared to 95.29% of total assets at December 31, 2021. The increase in loan volume during the reporting period is a result of new loan volume outpacing principal payments and payoffs.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory.

Nonaccrual loans decreased from $9,412 at December 31, 2021, to $6,594 at September 30, 2022. This decrease is primarily the result of transfers of loan volume to nonaccrual being less than regular payments made on nonaccrual loans and nonaccrual loans liquidated or reinstated back to accrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb probable losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2022, was $4,954, compared to $6,094 at December 31, 2021, and was considered by management to be adequate to cover probable losses. The primary reason for the decrease in allowance for loan losses is a decreased level of general loan loss reserves, reflecting improved credit quality during the period.

RESULTS OF OPERATIONS

For the three months ended September 30, 2022

Net income for the three months ended September 30, 2022, totaled $10,179 as compared to $9,077 for the same period in 2021, which is an increase of $1,102, or 12.14 percent.

Net interest income for the three months ended September 30, 2022, totaled $14,854, as compared to $14,117 for the same period of 2021, an increase of $737. At September 30, 2022, total interest income increased $2,765, as compared to the same period in 2021. Interest income recognized on nonaccrual loans was $405 for the three months ended September 30, 2022, as compared to $147 for the same period in 2021, an increase of $258. Interest expense increased $2,028 for the three months ended September 30, 2022, as compared to the same period in 2021. The increases in both interest income and interest expense are caused by increased loan volume and increased interest rates in 2022, compared with 2021.

The Association recorded a provision/(reversal) for loan losses of ($748) for the three months ended September 30, 2022, as compared to a provision/(reversal) of $183 for the same period of 2021.

Noninterest income for the three months ended September 30, 2022, totaled $4,703, as compared to $5,468 for the same period of 2021, a decrease of $765. The decrease in noninterest income is attributed to decreases of $457 in loan fees, $267 in gains/(losses) on the sale of rural home loans, $65 in gains/(losses) on sales of premises equipment, and $270 in gains/(losses) on other transactions, when compared to the same period in 2021. These decreases were offset by increases of $21 in fees for financially-related services, $2 in lease income, $265 in patronage refunds from other Farm Credit institutions, and $6 in other noninterest income, when compared to the same period in 2021.

Noninterest expense for the three months ended September 30, 2022, totaled $10,122, as compared to $10,306 for the same period of 2021, a decrease of $184. This decrease in noninterest expense is attributed to decreases of $779 in salaries and employee benefits, and $3 in data processing, when compared to the same period in 2021. These decreases were offset by increases of $28 in occupancy and equipment, $168 in Insurance Fund premiums, $157 in purchased services, $264 in other operating expenses, and $19 in (gains)/losses on other property owned, net, when compared to the same period in 2021.

The Association recorded a provision/(benefit) for income taxes of $4 for the three months ended September 30, 2022, as compared to a provision/(benefit) of $19 for the same period of 2021.

For the nine months ended September 30, 2022

Net income for the nine months ended September 30, 2022, totaled $29,556, as compared to $28,775 for the same period in 2021, an increase of $781, or 2.71 percent.

Net interest income for the nine months ended September 30, 2022, totaled $43,195, as compared to $41,650 for the same period of 2021, an increase of $1,545. Total interest income increased $4,926 during the nine months ended September 30, 2022, as compared to the same period in 2021. Interest income recognized on nonaccrual loans was $598 for the nine months ended September 30, 2022, as compared to $496 for the same period in 2021, an increase of $102. Interest expense increased $3,381 for the nine months ended September 30, 2022, as compared to the same period in 2021. The increases in both interest income and interest expense are caused by increased loan volume and increased interest rates in 2022, compared with 2021.

The Association recorded a provision/(reversal) for loan losses of ($1,798) for the nine months ended September 30, 2022, as compared to a provision/(reversal) of ($343) for the same period in 2021. The primary reasons for the reversals in both years is improved credit quality and lower historical net chargeoffs.

Noninterest income for the nine months ended September 30, 2022, totaled $14,686, as compared to $17,080 for the same period in 2021, a decrease of $2,394. The decrease in noninterest income is attributed to decreases of $2,043 in loan fees, $5 in fees for financially-related services, $16 in gains/(losses) on the sale of rural home loans, $395 in gains/(losses) on sales of premises equipment, and $624 in gains/(losses) on other transactions, when compared to the same period in 2021. These decreases were offset by increases of $14 in lease income, $658 in patronage refunds from other Farm Credit institutions, and $17 in other noninterest income, when compared for the same period of 2021.

Noninterest expense for the nine months ended September 30, 2022, totaled $30,123, as compared to $30,249 for the same period of 2021, a decrease of $126. This decrease in noninterest expense is attributed to decreases of $2,030 in salaries and employee benefits, and $21 in data processing, when compared to the same period in 2021. These decreases were offset by increases of $151 in occupancy and equipment, $493 in Insurance Fund premiums, $114 in purchased services, $1,179 in other operating expenses, and $12 in (gains)/losses on other property owned, net, when compared to the same period in 2021

The Association recorded a provision/(benefit) for income taxes of $0 for the nine months ended September 30, 2022, as compared to a provision/(benefit) of $49 for the same period of 2021.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (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 is 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 $1,517,395, as compared to $1,453,937 at December 31, 2021. The increase during the period is primarily attributable to an increase in loan volume, offset by the payment of AgFirst patronage payable to the Association in January 2022.

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

One of the Bank's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. The Bank's primary source of liquidity is its ability to issue Systemwide Debt Securities through the Funding Corporation. If the effects of COVID-19 were to create market disruptions that caused the Funding Corporation to be unable to continue to issue Systemwide Debt Securities at reasonable rates and desired terms, the Bank and the Association's business, operating results, or financial condition would likely be adversely affected.

LIBOR Transition

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

The FCA has issued guidelines with similar guidance as the U.S. prudential regulators, but applicable for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure, stop the inflow of new LIBOR volume, and adjust operating processes to implement alternative reference rates.

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

The following is a summary of Association variable-rate financial instruments with LIBOR exposure at September 30, 2022:

(dollars in thousands)	Due in 2022	Due in 2023 (on or before June 30)	Due after June 30, 2023	Total
Loans	$ –	$ 454	$ 25,531	$ 25,985
Total Assets	$ –	$ 454	$ 25,531	$ 25,985
Note Payable to				
AgFirst Farm Credit Bank	$ –	$ 352	$ 19,783	$ 20,135
Total Liabilities	$ –	$ 352	$ 19,783	$ 20,135

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after June 30, 2023, which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. At September 30, 2022, less than 5 percent of total loans maturing after June 30, 2023, do not contain fallback provisions.

CAPITAL RESOURCES

Total members' equity at September 30, 2022, increased to $386,538, from the December 31, 2021, total of $357,559. The change in capital is primarily attributable to net earnings in the current year.

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

For all periods presented, the Association exceeded minimum standards for all the regulatory capital and leverage ratios, as shown in the following table.

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%	19.61%
Tier 1 Capital	6.0%	2.5%	8.5%	19.61%
Total Capital	8.0%	2.5%	10.5%	19.91%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.66%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	19.24%
UREE Leverage Ratio	1.5%	0.0%	1.5%	18.67%

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

REGULATORY MATTERS

On April 14, 2022, the FCA approved a final rule that amends certain regulations to address changes in accounting principles generally accepted in the United States. Such changes reflect the Current Expected Credit Losses (CECL) methodology that will replace the incurred loss methodology upon adoption. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. The regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. In addition, the regulation does not include an exclusion for the CECL day 1 cumulative effective adjustment from the "safe harbor" deemed prior approval provision. The final rule is effective on January 1, 2023.

On August 26, 2021, the FCA issued a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the increased risk posed by HVCRE exposures. The public comment period ended on January 24, 2022.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts, at the adoption date. • The guidance is expected to be adopted January 1, 2023.
ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures	
• This Update responds to feedback received during the Post Implementation Review process conducted by the FASB related to Topic 326. Troubled Debt Restructurings (TDRs) by Creditors • The amendments eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan. Vintage Disclosures—Gross Writeoffs • For public business entities, the amendments in this Update require that an entity disclose current period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.	• These amendments will be implemented in conjunction with the adoption of ASU 2016-13.

ASU 2022-03—Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions	
• This Update clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. It also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. • The guidance clarifies accounting principles for measuring the fair value of an equity security subject to a contractual sale restriction and improves current GAAP by reducing diversity in practice, reducing cost and complexity, and increasing comparability of financial information across reporting entities. • The amendments also require certain disclosures for equity securities subject to contractual sale restrictions.	• For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. • For all entities except investment companies, the Update should be applied prospectively with any adjustments from adoption recognized in earnings. • Early adoption is permitted.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request, free of charge, by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request, free of charge, by calling 1-800-521-9952, or writing Christopher H. Scott, CFO, Carolina Farm Credit, ACA, P.O. Box 1827, Statesville, NC 28687-1827, or accessing the website, www.carolinafarmcredit.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.

Carolina Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2022 *(unaudited)*	December 31, 2021 *(audited)*
Assets		
Cash	**$ 148**	$ 100
Investments in debt securities:		
Held to maturity (fair value of $590 and $743, respectively)	**672**	714
Loans	**1,864,822**	1,786,411
Allowance for loan losses	**(4,954)**	(6,094)
Net loans	**1,859,868**	1,780,317
Loans held for sale	**1,728**	1,681
Other investments	**35**	19
Accrued interest receivable	**17,994**	13,992
Equity investments in other Farm Credit institutions	**16,875**	16,786
Premises and equipment, net	**18,053**	18,686
Other property owned	**1,603**	—
Accounts receivable	**9,202**	30,869
Other assets	**5,670**	5,243
Total assets	**$ 1,931,848**	$ 1,868,407
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,517,395**	$ 1,453,937
Accrued interest payable	**3,725**	3,018
Patronage refunds payable	**325**	32,818
Accounts payable	**3,947**	3,106
Advanced conditional payments	**1,550**	1,067
Other liabilities	**18,368**	16,902
Total liabilities	**1,545,310**	1,510,848
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**10,659**	10,575
Retained earnings		
Allocated	**204,461**	201,656
Unallocated	**172,568**	146,581
Accumulated other comprehensive income (loss)	**(1,150)**	(1,253)
Total members' equity	**386,538**	357,559
Total liabilities and members' equity	**$ 1,931,848**	$ 1,868,407

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

Carolina Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2022	2021	For the Nine Months Ended September 30, 2022	2021
Interest Income				
Loans	**$ 25,743**	$ 22,976	**$ 72,605**	$ 67,672
Investments	**10**	12	**32**	39
Total interest income	**25,753**	22,988	**72,637**	67,711
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**10,899**	8,871	**29,395**	26,061
Other	**—**	—	**47**	—
Total interest expense	**10,899**	8,871	**29,442**	26,061
Net interest income	**14,854**	14,117	**43,195**	41,650
Provision for (reversal of) allowance for loan losses	**(748)**	183	**(1,798)**	(343)
Net interest income after provision for (reversal of) allowance for loan losses	**15,602**	13,934	**44,993**	41,993
Noninterest Income				
Loan fees	**995**	1,452	**2,962**	5,005
Fees for financially related services	**32**	11	**66**	71
Lease income	**28**	26	**82**	68
Patronage refunds from other Farm Credit institutions	**3,143**	2,878	**9,249**	8,591
Gains (losses) on sales of rural home loans, net	**551**	818	**2,218**	2,234
Gains (losses) on sales of premises and equipment, net	**64**	129	**74**	469
Gains (losses) on other transactions	**(163)**	107	**(120)**	504
Other noninterest income	**53**	47	**155**	138
Total noninterest income	**4,703**	5,468	**14,686**	17,080
Noninterest Expense				
Salaries and employee benefits	**6,295**	7,074	**19,396**	21,426
Occupancy and equipment	**809**	781	**2,022**	1,871
Insurance Fund premiums	**700**	532	**2,049**	1,556
Purchased services	**432**	275	**939**	825
Data processing	**131**	134	**403**	424
Other operating expenses	**1,763**	1,499	**5,315**	4,136
(Gains) losses on other property owned, net	**(8)**	11	**(1)**	11
Total noninterest expense	**10,122**	10,306	**30,123**	30,249
Income before income taxes	**10,183**	9,096	**29,556**	28,824
Provision for income taxes	**4**	19	**—**	49
Net income	**$ 10,179**	$ 9,077	**$ 29,556**	$ 28,775
Other comprehensive income net of tax				
Employee benefit plans adjustments	**35**	47	**103**	142
Comprehensive income	**$ 10,214**	$ 9,124	**$ 29,659**	$ 28,917

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

Carolina Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 9,965	$ 195,698	$ 139,588	$ (1,790)	$ 343,461
Comprehensive income			28,775	142	28,917
Capital stock/participation certificates issued/(retired), net	662				662
Retained earnings retired		(12,890)			(12,890)
Patronage distribution adjustment		785	(2,307)		(1,522)
Balance at September 30, 2021	$ 10,627	$ 183,593	$ 166,056	$ (1,648)	$ 358,628
Balance at December 31, 2021	**$ 10,575**	**$ 201,656**	**$ 146,581**	**$ (1,253)**	**$ 357,559**
Comprehensive income			**29,556**	**103**	**29,659**
Capital stock/participation certificates issued/(retired), net	**84**				**84**
Patronage distribution adjustment		**2,805**	**(3,569)**		**(764)**
Balance at September 30, 2022	**$ 10,659**	**$ 204,461**	**$ 172,568**	**$ (1,150)**	**$ 386,538**

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

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

Basis of Presentation

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

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

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

Significant Accounting Policies

The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition. Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

Accounting Standards Effective During the Period

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

		September 30, 2022		December 31, 2021
Real estate mortgage	$	1,265,446	$	1,205,898
Production and intermediate-term		393,654		404,781
Loans to cooperatives		5,312		6,557
Processing and marketing		62,802		53,804
Farm-related business		11,938		9,961
Communication		7,897		2,943
Power and water/waste disposal		2,933		456
Rural residential real estate		103,615		96,662
International		11,225		5,349
Total loans	$	1,864,822	$	1,786,411

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	$ 7,209	$ 32,251	$ 111	$ –	$ 3,023	$ –	$ 10,343	$ 32,251
Production and intermediate-term	17,826	80,177	7,321	–	–	–	25,147	80,177
Loans to cooperatives	5,323	–	–	–	–	–	5,323	–
Processing and marketing	32,615	18,442	431	–	–	–	33,046	18,442
Farm-related business	1,995	571	69	–	–	–	2,064	571
Communication	7,912	–	–	–	–	–	7,912	–
Power and water/waste disposal	2,938	–	–	–	–	–	2,938	–
International	11,243	–	–	–	–	–	11,243	–
Total	$ 87,061	$ 131,441	$ 7,932	$ –	$ 3,023	$ –	$ 98,016	$ 131,441

December 31, 2021	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 8,894	$ 17,782	$ 148	$ –	$ –	$ –	$ 9,042	$ 17,782
Production and intermediate-term	16,953	66,067	7,480	–	–	–	24,433	66,067
Loans to cooperatives	6,566	–	–	–	–	–	6,566	–
Processing and marketing	17,533	25,658	493	–	–	–	18,026	25,658
Farm-related business	–	1,723	93	–	–	–	93	1,723
Communication	2,951	–	–	–	–	–	2,951	–
Power and water/waste disposal	461	–	–	–	–	–	461	–
International	5,360	–	–	–	–	–	5,360	–
Total	$ 58,718	$ 111,230	$ 8,214	$ –	$ –	$ –	$ 66,932	$ 111,230

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	98.10%	97.72%
OAEM	1.07	1.46
Substandard/doubtful/loss	0.83	0.82
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	96.17%	94.68%
OAEM	2.29	4.05
Substandard/doubtful/loss	1.54	1.27
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	71.68%	100.00%
OAEM	28.32	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	96.79%	80.57%
OAEM	–	0.09
Substandard/doubtful/loss	3.21	19.34
	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	98.25%	98.31%
OAEM	1.32	1.43
Substandard/doubtful/loss	0.43	0.26
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	96.84%	97.05%
OAEM	2.23	1.98
Substandard/doubtful/loss	0.93	0.97
	100.00%	100.00%

The following tables provide an aging analysis of the recorded investment of past due loans as of:

	September 30, 2022				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 5,090	$ 1,332	$ 6,422	$ 1,271,199	$ 1,277,621
Production and intermediate-term	894	1,963	2,857	395,933	398,790
Loans to cooperatives	–	–	–	5,318	5,318
Processing and marketing	–	–	–	62,926	62,926
Farm-related business	10	259	269	11,740	12,009
Communication	–	–	–	7,898	7,898
Power and water/waste disposal	–	–	–	2,933	2,933
Rural residential real estate	862	–	862	103,201	104,063
International	–	–	–	11,255	11,255
Total	$ 6,856	$ 3,554	10,410	$ 1,872,403	$ 1,882,813

	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	$ 4,108	$ 2,532	$ 6,640	$ 1,208,984	$ 1,215,624
Production and intermediate-term	1,006	2,361	3,367	405,248	408,615
Loans to cooperatives	–	–	–	6,559	6,559
Processing and marketing	–	–	–	53,915	53,915
Farm-related business	136	272	408	9,602	10,010
Communication	–	–	–	2,943	2,943
Power and water/waste disposal	–	–	–	456	456
Rural residential real estate	455	15	470	96,447	96,917
International	–	–	–	5,361	5,361
Total	$ 5,705	$ 5,180	$ 10,885	$ 1,789,515	$ 1,800,400

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	$ 3,502	$ 5,675
Production and intermediate-term	2,793	3,403
Farm-related business	269	272
Rural residential real estate	30	62
Total	$ 6,594	$ 9,412
Accruing restructured loans:		
Real estate mortgage	$ 854	$ 898
Production and intermediate-term	212	173
Rural residential real estate	77	83
Total	$ 1,143	$ 1,154
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 7,737	$ 10,566
Other property owned	1,603	–
Total nonperforming assets	$ 9,340	$ 10,566
Nonaccrual loans as a percentage of total loans	0.35%	0.53%
Nonperforming assets as a percentage of total loans and other property owned	0.50%	0.59%
Nonperforming assets as a percentage of capital	2.42%	2.96%

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

	September 30, 2022	December 31, 2021
Impaired nonaccrual loans:		
Current as to principal and interest	$ 2,544	$ 2,986
Past due	4,050	6,426
Total	$ 6,594	$ 9,412
Impaired accrual loans:		
Restructured	$ 1,143	$ 1,154
90 days or more past due	–	–
Total	$ 1,143	$ 1,154
Total impaired loans	$ 7,737	$ 10,566
Additional commitments to lend	$ 322	$ 1

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	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	286	301	135	320	16	350	24
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 286	$ 301	$ 135	$ 320	$ 16	$ 350	24
With no related allowance for credit losses:							
Real estate mortgage	$ 4,356	$ 5,081	$ –	$ 4,875	$ 237	$ 5,334	$ 364
Production and intermediate-term	2,719	3,401	–	3,042	147	3,330	227
Farm-related business	269	270	–	301	15	329	22
Rural residential real estate	107	197	–	121	6	132	9
Total	$ 7,451	$ 8,949	$ –	$ 8,339	$ 405	$ 9,125	622
Total impaired loans:							
Real estate mortgage	$ 4,356	$ 5,081	$ –	$ 4,875	$ 237	$ 5,334	$ 364
Production and intermediate-term	3,005	3,702	135	3,362	163	3,680	251
Farm-related business	269	270	–	301	15	329	22
Rural residential real estate	107	197	–	121	6	132	9
Total	$ 7,737	$ 9,250	$ 135	$ 8,659	$ 421	$ 9,475	$ 646

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	$ 939	$ 955	$ 64	$ 1,286	$ 80
Production and intermediate-term	348	370	181	475	30
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 1,287	$ 1,325	$ 245	$ 1,761	$ 110
With no related allowance for credit losses:					
Real estate mortgage	$ 5,634	$ 6,849	$ –	$ 7,711	$ 484
Production and intermediate-term	3,228	4,348	–	4,419	277
Farm-related business	272	294	–	372	23
Rural residential real estate	145	232	–	199	12
Total	$ 9,279	$ 11,723	$ –	$ 12,701	$ 796
Total impaired loans:					
Real estate mortgage	$ 6,573	$ 7,804	$ 64	$ 8,997	$ 564
Production and intermediate-term	3,576	4,718	181	4,894	307
Farm-related business	272	294	–	372	23
Rural residential real estate	145	232	–	199	12
Total	$ 10,566	$ 13,048	$ 245	$ 14,462	$ 906

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	$ 2,291	$ 2,312	$ 326	$ 10	$ –	$ 96	$ 4	$ 5,039
Charge-offs	–	(58)	–	–	–	–	–	(58)
Recoveries	703	18	–	–	–	–	–	721
Provision for loan losses	(870)	(102)	220	–	2	(2)	4	(748)
Balance at September 30, 2022	$ 2,124	$ 2,170	$ 546	$ 10	$ 2	$ 94	$ 8	$ 4,954
Balance at December 31, 2021	$ 2,438	$ 2,911	$ 640	$ 6	$ 1	$ 94	$ 4	$ 6,094
Charge-offs	(658)	(171)	–	–	–	(1)	–	(830)
Recoveries	1,383	100	–	–	–	5	–	1,488
Provision for loan losses	(1,039)	(670)	(94)	4	1	(4)	4	(1,798)
Balance at September 30, 2022	$ 2,124	$ 2,170	$ 546	$ 10	$ 2	$ 94	$ 8	$ 4,954
Balance at June 30, 2021	$ 3,734	$ 3,861	$ 822	$ 13	$ 2	$ 172	$ 6	$ 8,610
Charge-offs	–	(51)	–	–	–	(47)	–	(98)
Recoveries	26	43	45	–	–	13	–	127
Provision for loan losses	37	417	(290)	–	–	20	(1)	183
Balance at September 30, 2021	$ 3,797	$ 4,270	$ 577	$ 13	$ 2	$ 158	$ 5	$ 8,822
Balance at December 31, 2020	$ 4,110	$ 3,652	$ 1,115	$ 11	$ 2	$ 173	$ 6	$ 9,069
Charge-offs	(89)	(69)	(2)	–	–	(66)	–	(226)
Recoveries	96	167	46	–	–	13	–	322
Provision for loan losses	(320)	520	(582)	2	–	38	(1)	(343)
Balance at September 30, 2021	$ 3,797	$ 4,270	$ 577	$ 13	$ 2	$ 158	$ 5	$ 8,822
Allowance on loans evaluated for impairment:								
Individually	$ –	$ 135	$ –	$ –	$ –	$ –	$ –	$ 135
Collectively	2,124	2,035	546	10	2	94	8	4,819
Balance at September 30, 2022	$ 2,124	$ 2,170	$ 546	$ 10	$ 2	$ 94	$ 8	$ 4,954
Individually	$ 64	$ 181	$ –	$ –	$ –	$ –	$ –	$ 245
Collectively	2,374	2,730	640	6	1	94	4	5,849
Balance at December 31, 2021	$ 2,438	$ 2,911	$ 640	$ 6	$ 1	$ 94	$ 4	$ 6,094
Recorded investment in loans evaluated for impairment:								
Individually	$ 3,502	$ 2,793	$ 269	$ –	$ –	$ 30	$ –	$ 6,594
Collectively	1,274,119	395,997	79,984	7,898	2,933	104,033	11,255	1,876,219
Balance at September 30, 2022	$ 1,277,621	$ 398,790	$ 80,253	$ 7,898	$ 2,933	$ 104,063	$ 11,255	$ 1,882,813
Individually	$ 5,675	$ 3,403	$ 272	$ –	$ –	$ 62	$ –	$ 9,412
Collectively	1,209,949	405,212	70,212	2,943	456	96,855	5,361	1,790,988
Balance at December 31, 2021	$ 1,215,624	$ 408,615	$ 70,484	$ 2,943	$ 456	$ 96,917	$ 5,361	$ 1,800,400

**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. There were no new TDRs that occurred during the three and nine month periods ended September 30, 2022 and 2021.

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:				
Production and intermediate-term	$ –	$ –	$ –	$ 42
Total	$ –	$ –	$ –	$ 42

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2022	**December 31, 2021**	**September 30, 2022**	**December 31, 2021**
Real estate mortgage	$ 2,229	$ 2,971	$ 1,375	$ 2,073
Production and intermediate-term	236	275	24	102
Farm-related business	259	272	259	272
Rural residential real estate	77	83	–	–
Total loans	$ 2,801	$ 3,601	$ 1,658	$ 2,447
Additional commitments to lend	$ –	$ –		

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At September 30, 2022, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	September 30, 2022				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
RABs	$ 672	$ –	$ (82)	$ 590	5.96%

	December 31, 2021				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
RABs	$ 714	$ 29	$ –	$ 743	5.89%

A summary of the contractual maturity, amortized cost, and estimated fair value of investment securities held-to-maturity follows:

	September 30, 2022		
	Amortized Cost	**Fair Value**	**Weighted Average Yield**
In one year or less	$ –	$ –	– %
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	672	590	5.96
Total	$ 672	$ 590	5.96 %

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

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

	September 30, 2022			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
RABs	$ 590	$ (82)	$ –	$ –

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

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

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

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 5.90 percent of the issued stock of the Bank as of September 30, 2022, net of any reciprocal investment. As of that date, the Bank's assets totaled $41.7 billion and shareholders' equity totaled $1.6 billion. The Bank's earnings were $313 million for the first nine months of 2022. In addition, the Association held investments of $1,727 related to other Farm Credit institutions.

Note 4 — Debt

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Employee Benefit Plans:				
Balance at beginning of period	$ (1,185)	$ (1,695)	$ (1,253)	$ (1,790)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	35	47	103	142
Net current period other comprehensive income	35	47	103	142
Balance at end of period	$ (1,150)	$ (1,648)	$ (1,150)	$ (1,648)

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2022	2021	2022	2021	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (35)	$ (47)	$ (103)	$ (142)	See Note 7.
Net amounts reclassified	$ (35)	$ (47)	$ (103)	$ (142)	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	September 30, 2022				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 3,946	$ 3,946	$ –	$ –	$ 3,946
Recurring Assets	$ 3,946	$ 3,946	$ –	$ –	$ 3,946
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 151	$ –	$ –	$ 151	$ 151
Other property owned	1,603	–	–	1,740	1,740
Nonrecurring Assets	$ 1,754	$ –	$ –	$ 1,891	$ 1,891
Other Financial Instruments					
Assets:					
Cash	$ 148	$ 148	$ –	$ –	$ 148
Investments in debt securities, held-to-maturity	672	–	–	590	590
Loans	1,861,445	–	–	1,730,326	1,730,326
Other Financial Assets	$ 1,862,265	$ 148	$ –	$ 1,730,916	$ 1,731,064
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,517,395	$ –	$ –	$ 1,393,132	$ 1,393,132
Other Financial Liabilities	$ 1,517,395	$ –	$ –	$ 1,393,132	$ 1,393,132

	December 31, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 4,534	$ 4,534	$ –	$ –	$ 4,534
Recurring Assets	$ 4,534	$ 4,534	$ –	$ –	$ 4,534
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,042	$ –	$ –	$ 1,042	$ 1,042
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 1,042	$ –	$ –	$ 1,042	$ 1,042
Other Financial Instruments					
Assets:					
Cash	$ 100	$ 100	$ –	$ –	$ 100
Investments in debt securities, held-to-maturity	714	–	–	743	743
Loans	1,780,956	–	–	1,786,383	1,786,383
Other Financial Assets	$ 1,781,770	$ 100	$ –	$ 1,787,126	$ 1,787,226
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,453,937	$ –	$ –	$ 1,444,347	$ 1,444,347
Other Financial Liabilities	$ 1,453,937	$ –	$ –	$ 1,444,347	$ 1,444,347

Uncertainty in Measurements of Fair Value

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

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

Investments in Debt Securities

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

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Pension	$ 623	$ 1,394	$ 1,868	$ 4,180
401(k)	280	265	840	780
Other postretirement benefits	229	216	697	630
Total	$ 1,132	$ 1,875	$ 3,405	$ 5,590

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

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Merger Activity

On May 24, 2022, the Board of Directors of the Association and AgSouth 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 April 1, 2023.

Note 10 — Subsequent Events

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