
AgChoice Farm Credit, ACA

SECOND QUARTER 2022

TABLE OF CONTENTS

Report on Internal Control Over Financial Reporting	2
Management's Discussion and Analysis of Financial Condition and Results of Operations	3
Consolidated Financial Statements	
Consolidated Balance Sheets	9
Consolidated Statements of Comprehensive Income	10
Consolidated Statements of Changes in Members' Equity	11
Notes to the Consolidated Financial Statements.....	12

CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2022 quarterly report of *AgChoice Farm Credit, ACA*, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

/s/ Darrell L. Curtis
Chief Executive Officer

/s/ Terry A. Davis
Chief Financial Officer

/s/ Richard A. Allen
Chairman of the Board

August 8, 2022

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and affected 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 June 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 June 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 June 30, 2022.

/s/ Darrell L. Curtis
Chief Executive Officer

/s/ Terry A. Davis
Chief Financial Officer

August 8, 2022

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of **AgChoice** Farm Credit ACA, (Association) for the period ended June 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. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. Information in any part of this Quarterly Report may be incorporated by reference in answer or partial answer to any other item of the Quarterly Report.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities, including dairy, livestock, poultry, forest products, and various crops, and also includes part-time farm 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, impacts the level of dependency on a given commodity.

Loans at June 30, 2022 totaled \$2,735,894, compared to \$2,587,854 at December 31, 2021, an increase of \$148,040 (5.7 percent). Allowance for loan losses increased \$1,595 (11.0 percent) to \$16,096 during the first six months of 2022, resulting in net loans (loans less allowance for loan losses) of \$2,719,798 and \$2,573,353 at June 30, 2022 and December 31, 2021, respectively. Nonaccrual loans decreased \$1,230 (19.7 percent) to \$5,000 at June 30, 2022, compared to \$6,230 at December 31, 2021. The Association held no other property owned at June 30, 2022.

There is an inherent risk in the extension of any type of credit and, accordingly, the Association maintains an Allowance for loan losses consistent with the risk measured in the portfolio. Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. The Allowance for loan losses represented 0.59 and 0.56 percent of loans at June 30, 2022 and December 31, 2021, respectively, and 321.92 and 232.76 percent of nonaccrual

loans at June 30, 2022 and December 31, 2021, respectively. See also Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

For the three months ended June 30, 2022

Net income for the three months ended June 30, 2022 totaled \$4,341, a decrease of \$9,023 (67.5 percent) compared to the three months ended June 30, 2021. Major changes in the components of net income are identified as follows:

- Net interest income increased \$1,326 (8.8 percent) for the quarter ended June 30, 2022, compared to the same period in 2021. The increase in net interest income is primarily attributable to (a) a \$1,179 increase in net interest income on accruing loans, (b) a \$360 increase in the Association's earnings on loanable funds offset by (c) a \$213 decrease in interest income on nonaccruing loans.
- The risks identified in the Association's Loan portfolio required a provision of allowance for loan losses of \$1,166 in the second quarter of 2022, compared to a reversal of allowance for loan losses of \$945 in the same quarter of 2021. The Association's nonaccrual loans to total loans decreased to 0.18 percent at June 30, 2022, compared to 0.24 and 0.31 percent at December 31, 2021 and June 30, 2021, respectively. See also Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.
- Patronage refunds from other Farm Credit institutions of \$4,322 and \$3,875 were accrued during the second quarter of 2022 and 2021, respectively, and management anticipates additional income for the remaining quarters in 2022. Since this income from AgFirst Farm Credit Bank (the Bank) is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The increase in the accrual in 2022 is due to the impact of an increase in loan volume.

- Total noninterest income decreased in the second quarter by \$454 (8.4 percent) including (a) an increase of \$765 in the loss on sales of property and equipment, (b) an increase of \$103 in losses on other transactions, and (c) a decrease of \$98 in fees for financially related services, offset by (d) an increase of \$447 in patronage refunds from other Farm Credit institutions, (e) an increase of \$65 in loan fees and other noninterest income.
- Noninterest expense for the second quarter of 2022 was \$15,143, an increase of \$7,263 (92.2 percent) as compared to \$7,880 for the second quarter of 2021.

The increase of \$2,066 (41.6 percent) in Salaries and employee benefits includes (a) an increase in salaries of \$2,206 (54.0 percent), primarily related to merit increases and merger-related costs and (b) a decrease in deferred personnel costs of \$193 (20.5 percent), offset by (c) a decrease of \$333 (18.3 percent) in employee benefits in 2022 compared to 2021. See also Note 7, *Employee Benefit Plans*, in the Notes to the Consolidated Financial Statements.

Insurance fund premium expense increased \$561 (73.8 percent) due to (a) an increase in Notes payable to the Bank related to loan volume growth and (b) an increase in Farm Credit System Insurance Corporation (FCSIC) premium rates from 16 to 20 basis points. This premium increase occurred during the second quarter of 2022, but was made retroactive to January 1, 2022.

Purchased services expense increased by \$340 (58.5 percent), primarily driven by merger-related costs. See also Note 9, *Merger Activity*, in the Notes to the Consolidated Financial Statements.

Occupancy and equipment and Other operating expenses were \$5,873 in 2022, an increase of \$4,297 (272.6 percent) compared to \$1,576 in 2021. This increase includes (a) a donation of \$3,000 to the Farm Credit Foundation for Agricultural Advancement during the quarter, along with (b) other increases in directors, training, travel, occupancy and equipment, communication, advertising, public relations and other expenses, offset by (c) decreases in training and data processing.

- The Association recorded a Provision for income taxes of \$631 and \$110 for the second quarters of 2022 and 2021, respectively. The increase is due to higher ACA non-pat income from participations purchased.

For the six months ended June 30, 2022

Net income for the six months ended June 30, 2022 totaled \$15,951, a decrease of \$8,189 (33.9 percent) compared to the six months ended June 30, 2021. Major changes in the components of net income are identified as follows:

- Net interest income increased \$2,170 (7.3 percent), primarily attributable to (a) an \$1,868 increase in net interest income on accruing loans and (b) a \$547 increase in the Associations earnings on loanable funds offset by (c) a decrease of \$245 in interest income on nonaccruing loans.
- Provision of allowance for loan losses was \$1,594 for the first six months of 2022, as compared to a reversal of allowance for loan losses of \$691 in the first six months of 2021.
- The association accrued estimated Patronage refunds from other Farm Credit Institutions of \$8,565, as compared to \$7,463 for the same period in 2021. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income.
- Noninterest income increased \$396 (4.0 percent). This increase is due to (a) an increase of \$1,102 (14.8 percent) in Patronage refunds from other Farm Credit institutions related to increased loans and (b) an increase of \$122 from Loan fees, offset by (c) a decrease of \$81 in Fees for financially related services, (d) an increase of \$52 in Losses on other transactions and (e) an increase of \$700 in Losses on sales of premises and equipment.
- Noninterest expense increased \$7,870 (49.1 percent) for the first six months of 2022 as compared to 2021.

The year-to-date increase for Salaries and employee benefits of \$1,876 (18.3 percent) includes (a) an increase of \$2,318 (27.9 percent) in salaries due to increased staffing, merit raises and other merger-related costs and (b) a decrease in deferred personnel costs of \$245, offset by (c) a decrease in employee benefits of \$687. See also Note 7, *Employee Benefit Plans*, in the Notes to the Consolidated Financial Statements.

Occupancy and equipment and Other operating expenses increased \$4,678 (144.3 percent) from \$3,243 in 2021 to \$7,921 in 2022, which includes (a) the donation of \$3,000 to the Farm Credit Foundation for Agricultural Advancement during the quarter along with (b) increases in directors, training, travel,

occupancy and equipment, communication, advertising, public relations and other operating expenses, offset by (c) decreases in data processing expenses.

Insurance fund premium expense increased \$672 (44.9 percent) due to (a) an increase in Notes payable to the Bank and (b) an increase in Farm Credit System Insurance Corporation (FCSIC) premium rates from 16 to 20 basis points. This premium increase occurred during the second quarter of 2022, but was made retroactive to January 1, 2022.

- The Association recorded a Provision for income taxes of \$800 and \$200, respectively, for the six months ended June 30, 2022 and 2021. The increase is due to higher ACA non-pat income from participations purchased.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. 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. Total Notes payable to the Bank at June 30, 2022 were \$2,268,976, as compared to \$2,122,048 at December 31, 2021. This increase

of \$146,928 (6.9 percent) resulted from (a) an increase in loans and (b) the payment of patronage dividends, offset by (c) current year cash generated from operating activities and (d) the receipt of prior year patronage refunds from AgFirst.

CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2022 that would affect minimum stock purchases or have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at June 30, 2022 was \$477,535, an increase of \$5,211 (1.1 percent) compared to the December 31, 2021 total of \$472,324. The increase is primarily attributed to year-to-date earnings.

Total capital stock and participation certificates were \$9,930 on June 30, 2022, compared to \$9,676 on December 31, 2021.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain certain minimum regulatory capital ratios.

As of June 30, 2022, the Association was well above the minimum regulatory ratios for all capital adequacy ratios:

Ratio	Minimum Requirement	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of June 30, 2022
Risk-adjusted ratios:			
CET1 Capital	4.50%	7.00%	15.51%
Tier 1 Capital	6.00%	8.50%	15.51%
Total Capital	8.00%	10.50%	16.03%
Permanent Capital Ratio	7.00%	7.00%	15.59%
Non-risk-adjusted:			
Tier 1 Leverage Ratio	4.0%	5.0%	16.85%
UREE Leverage Ratio	1.5%	1.5%	16.49%

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.

LIBOR Transition

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

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

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

The following is a summary of outstanding variable-rate financial instruments tied to LIBOR at June 30, 2022:

<i>(dollars in thousands)</i>	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 20, 2023	Total
Loans	\$ 11,100	\$ 15,700	\$ 413,388	\$ 440,188
Total	\$ 11,100	\$ 15,700	\$ 413,388	\$ 440,188
Note Payable to				
AgFirst Farm Credit Bank	\$ 9,062	\$ 12,818	\$ 337,496	\$ 359,376
Total	\$ 9,062	\$ 12,818	\$ 337,496	\$ 359,376

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.

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

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

SHAREHOLDER INVESTMENT

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 1-800-349-3568, ext. 6008 or writing Terry Davis, AgChoice Farm Credit, ACA, 300 Winding Creek Blvd., Mechanicsburg, PA, 17050, or accessing the website www.agchoice.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.

WHISTLEBLOWER

Prior to June 30, 2022, reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors could be made anonymously and confidentially through the Association's Whistleblower Hotline at 1-833-220-9638, or via www.agchoice.ethicspoint.com. Effective July 1, 2022, these reports can be made using 1-833-220-9773 or www.horizonfarmcredit.ethicspoints.com.

NOTICE OF SIGNIFICANT EVENTS

On August 27, 2021, the Board of Directors of MidAtlantic Farm Credit, ACA and AgChoice Farm Credit, ACA signed a letter of intent to merge the two associations and entered into an Agreement and Plan of Merger. The merger has been approved by AgFirst and the FCA. The merger was voted on and approved by the membership of each Association on May 20, 2022. MidAtlantic Farm Credit, ACA and AgChoice Farm Credit, ACA jointly announced their merger, forming Horizon Farm Credit, ACA on July 1, 2022.

AgChoice Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2022 <i>(unaudited)</i>	December 31, 2021 <i>(audited)</i>
Assets		
Cash	\$ 7	\$ 15
Loans	2,735,894	2,587,854
Allowance for loan losses	(16,096)	(14,501)
Net loans	2,719,798	2,573,353
Accrued interest receivable	10,958	8,646
Equity investments in other Farm Credit institutions	22,357	22,344
Premises and equipment, net	13,749	14,684
Accounts receivable	8,850	43,134
Other assets	2,484	1,340
Total assets	\$ 2,778,203	\$ 2,663,516
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 2,268,976	\$ 2,122,048
Accrued interest payable	4,825	3,925
Patronage refunds payable	11,166	50,447
Accounts payable	5,377	4,972
Other liabilities	10,324	9,800
Total liabilities	2,300,668	2,191,192
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	9,930	9,676
Retained earnings		
Allocated	161,489	161,489
Unallocated	306,176	301,250
Accumulated other comprehensive income (loss)	(60)	(91)
Total members' equity	477,535	472,324
Total liabilities and members' equity	\$ 2,778,203	\$ 2,663,516

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

AgChoice Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
<i>(dollars in thousands)</i>				
Interest Income				
Loans	\$ 30,028	\$ 26,002	\$ 57,448	\$ 51,367
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	13,707	11,007	25,630	21,719
Net interest income	16,321	14,995	31,818	29,648
Provision for (reversal of) allowance for loan losses	1,166	(945)	1,594	(691)
Net interest income after provision for (reversal of) allowance for loan losses	15,155	15,940	30,224	30,339
Noninterest Income				
Loan fees	427	372	784	662
Fees for financially related services	979	1,077	1,714	1,795
Patronage refunds from other Farm Credit institutions	4,322	3,875	8,565	7,463
Gains (losses) on sales of premises and equipment, net	(693)	71	(629)	71
Gains (losses) on other transactions	(85)	18	(34)	18
Other noninterest income	10	1	11	6
Total noninterest income	4,960	5,414	10,411	10,015
Noninterest Expense				
Salaries and employee benefits	7,028	4,962	12,139	10,263
Occupancy and equipment	366	315	730	599
Insurance Fund premiums	1,321	760	2,167	1,495
Purchased services	921	581	1,658	1,013
Other operating expenses	5,507	1,262	7,190	2,644
Total noninterest expense	15,143	7,880	23,884	16,014
Income before income taxes	4,972	13,474	16,751	24,340
Provision for income taxes	631	110	800	200
Net income	\$ 4,341	\$ 13,364	\$ 15,951	\$ 24,140
Other comprehensive income net of tax				
Employee benefit plans adjustments	30	1	31	2
Comprehensive income	\$ 4,371	\$ 13,365	\$ 15,982	\$ 24,142

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

AgChoice Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
<i>(dollars in thousands)</i>		Allocated	Unallocated		
Balance at December 31, 2020	\$ 8,995	\$ 161,489	\$ 275,551	\$ (97)	\$ 445,938
Comprehensive income			24,140	2	24,142
Capital stock/participation certificates issued/(retired), net	344				344
Patronage distribution adjustment			(8)		(8)
Balance at June 30, 2021	\$ 9,339	\$ 161,489	\$ 299,683	\$ (95)	\$ 470,416
Balance at December 31, 2021	\$ 9,676	\$ 161,489	\$ 301,250	\$ (91)	\$ 472,324
Comprehensive income			15,951	31	15,982
Capital stock/participation certificates issued/(retired), net	254				254
Patronage distribution					
Cash			(11,000)		(11,000)
Patronage distribution adjustment			(25)		(25)
Balance at June 30, 2022	\$ 9,930	\$ 161,489	\$ 306,176	\$ (60)	\$ 477,535

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

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 AgChoice 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:

	June 30, 2022	December 31, 2021
Real estate mortgage	\$ 1,460,744	\$ 1,360,483
Production and intermediate-term	656,903	676,236
Loans to cooperatives	77,610	53,225
Processing and marketing	286,403	267,283
Farm-related business	67,773	58,655
Communication	105,248	99,297
Power and water/waste disposal	26,630	20,769
Rural residential real estate	32,082	29,243
International	18,452	18,440
Lease receivables	4,049	4,223
Total loans	\$ 2,735,894	\$ 2,587,854

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 or syndication 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 purchased and sold loans at periods ended:

June 30, 2022								
Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total		
Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold	
Real estate mortgage	\$ 33,783	\$ 6,870	\$ 11,150	\$ 10,441	\$ —	\$ 44,933	\$ 17,311	
Production and intermediate-term	56,430	5,585	43,839	3,077	—	100,269	8,662	
Loans to cooperatives	2,906	—	74,832	—	—	77,738	—	
Processing and marketing	61,674	53,128	99,835	5,775	74,457	235,966	58,903	
Farm-related business	—	—	—	—	14,800	14,800	—	
Communication	10,455	—	94,940	—	—	105,395	—	
Power and water/waste disposal	530	—	26,157	—	—	26,687	—	
International	—	—	18,500	—	—	18,500	—	
Lease receivables	—	—	4,049	—	—	4,049	—	
Total	\$ 165,778	\$ 65,583	\$ 373,302	\$ 19,293	\$ 89,257	\$ 628,337	\$ 84,876	

December 31, 2021								
Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total		
Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold	
Real estate mortgage	\$ 31,781	\$ 9,742	\$ 9,170	\$ 11,333	\$ —	\$ 40,951	\$ 21,075	
Production and intermediate-term	48,725	4,329	52,323	6,282	—	101,048	10,611	
Loans to cooperatives	1,397	—	51,953	—	—	53,350	—	
Processing and marketing	58,320	46,490	80,861	6,663	68,025	207,206	53,153	
Farm-related business	—	—	—	—	9,875	9,875	—	
Communication	7,493	—	92,014	—	—	99,507	—	
Power and water/waste disposal	831	—	19,988	—	—	20,819	—	
International	—	—	18,500	—	—	18,500	—	
Lease receivables	—	—	4,223	—	—	4,223	—	
Total	\$ 148,547	\$ 60,561	\$ 329,032	\$ 24,278	\$ 77,900	\$ 555,479	\$ 84,839	

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:

	June 30, 2022	December 31, 2021		June 30, 2022	December 31, 2021
Real estate mortgage:			Power and water/waste disposal:		
Acceptable	96.48%	96.49%	Acceptable	100.00%	100.00%
OAEM	1.85	1.71	OAEM	—	—
Substandard/doubtful/loss	1.67	1.80	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Rural residential real estate:		
Acceptable	95.24%	94.60%	Acceptable	97.94%	96.28%
OAEM	2.56	2.47	OAEM	1.03	1.73
Substandard/doubtful/loss	2.20	2.93	Substandard/doubtful/loss	1.03	1.99
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			International:		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Lease receivables:		
Acceptable	98.69%	98.62%	Acceptable	99.17%	99.05%
OAEM	1.31	1.38	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	0.83	0.95
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			Total loans:		
Acceptable	99.17%	98.60%	Acceptable	96.79%	96.52%
OAEM	0.47	1.26	OAEM	1.76	1.74
Substandard/doubtful/loss	0.36	0.14	Substandard/doubtful/loss	1.45	1.74
	100.00%	100.00%		100.00%	100.00%
Communication:					
Acceptable	100.00%	100.00%			
OAEM	—	—			
Substandard/doubtful/loss	—	—			
	100.00%	100.00%			

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

	June 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 and Accrued Interest
Real estate mortgage	\$ 1,464	\$ 240	\$ 1,704	\$ 1,465,712	\$ 1,467,416
Production and intermediate-term	1,120	524	1,644	658,052	659,696
Loans to cooperatives	—	—	—	77,736	77,736
Processing and marketing	—	—	—	287,224	287,224
Farm-related business	183	—	183	67,823	68,006
Communication	—	—	—	105,264	105,264
Power and water/waste disposal	—	—	—	26,695	26,695
Rural residential real estate	58	70	128	32,057	32,185
International	—	—	—	18,568	18,568
Lease receivables	6	—	6	4,056	4,062
Total	\$ 2,831	\$ 834	\$ 3,665	\$ 2,743,187	\$ 2,746,852

	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 and Accrued Interest
Real estate mortgage	\$ 4,133	\$ 320	\$ 4,453	\$ 1,360,907	\$ 1,365,360
Production and intermediate-term	1,609	579	2,188	676,514	678,702
Loans to cooperatives	—	—	—	53,360	53,360
Processing and marketing	—	—	—	267,842	267,842
Farm-related business	207	—	207	58,705	58,912
Communication	—	—	—	99,281	99,281
Power and water/waste disposal	—	—	—	20,808	20,808
Rural residential real estate	367	—	367	28,966	29,333
International	—	—	—	18,549	18,549
Lease receivables	86	—	86	4,267	4,353
Total	\$ 6,402	\$ 899	\$ 7,301	\$ 2,589,199	\$ 2,596,500

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

	June 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	\$ 2,675	\$ 2,826
Production and intermediate-term	2,181	3,318
Farm-related business	19	23
Rural residential real estate	125	63
Total	\$ 5,000	\$ 6,230
Accruing restructured loans:		
Total	\$ —	\$ —
Accruing loans 90 days or more past due:		
Total	\$ —	\$ —
Total nonperforming loans	\$ 5,000	\$ 6,230
Other property owned	—	—
Total nonperforming assets	\$ 5,000	\$ 6,230
Nonaccrual loans as a percentage of total loans	0.18%	0.24%
Nonperforming assets as a percentage of total loans and other property owned	0.18%	0.24%
Nonperforming assets as a percentage of capital	1.05%	1.32%

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.

	June 30, 2022	December 31, 2021
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 3,796	\$ 4,643
Past due	1,204	1,587
Total	\$ 5,000	\$ 6,230
Impaired accrual loans:		
Restructured	\$ —	\$ —
90 days or more past due	—	—
Total	\$ —	\$ —
Total impaired loans	\$ 5,000	\$ 6,230
Additional commitments to lend	\$ —	\$ —

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

	June 30, 2022			Three Months Ended June 30, 2022		Six Months Ended June 30, 2022	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:							
With a related allowance for credit losses:							
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
With no related allowance for credit losses:							
Real estate mortgage	\$ 2,675	\$ 3,488	\$ —	\$ 2,897	\$ 79	\$ 3,089	\$ 145
Production and intermediate-term	2,181	2,891	—	2,362	64	2,518	119
Farm-related business	19	21	—	21	—	22	1
Rural residential real estate	125	141	—	135	4	144	7
Total	\$ 5,000	\$ 6,541	\$ —	\$ 5,415	\$ 147	\$ 5,773	\$ 272
Total impaired loans:							
Real estate mortgage	\$ 2,675	\$ 3,488	\$ —	\$ 2,897	\$ 79	\$ 3,089	\$ 145
Production and intermediate-term	2,181	2,891	—	2,362	64	2,518	119
Farm-related business	19	21	—	21	—	22	1
Rural residential real estate	125	141	—	135	4	144	7
Total	\$ 5,000	\$ 6,541	\$ —	\$ 5,415	\$ 147	\$ 5,773	\$ 272

Impaired loans:	December 31, 2021			Year Ended December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
With a related allowance for credit losses:						
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
With no related allowance for credit losses:						
Real estate mortgage	\$ 2,826	\$ 3,559	\$ —	\$ 3,630	\$ 769	
Production and intermediate-term	3,318	4,239	—	4,262	902	
Farm-related business	23	23	—	30	6	
Rural residential real estate	63	78	—	81	17	
Total	\$ 6,230	\$ 7,899	\$ —	\$ 8,003	1,694	
Total impaired loans:						
Real estate mortgage	\$ 2,826	\$ 3,559	\$ —	\$ 3,630	\$ 769	
Production and intermediate-term	3,318	4,239	—	4,262	902	
Farm-related business	23	23	—	30	6	
Rural residential real estate	63	78	—	81	17	
Total	\$ 6,230	\$ 7,899	\$ —	\$ 8,003	1,694	

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:									
Balance at March 31, 2022	\$ 4,235	\$ 5,203	\$ 4,320	\$ 812	\$ 152	\$ 65	\$ 108	\$ 34	\$ 14,929
Charge-offs	—	—	—	—	—	—	—	—	—
Recoveries	1	—	—	—	—	—	—	—	1
Provision for loan losses	243	445	473	(6)	(1)	11	2	(1)	1,166
Balance at June 30, 2022	\$ 4,479	\$ 5,648	\$ 4,793	\$ 806	\$ 151	\$ 76	\$ 110	\$ 33	\$ 16,096
Balance at December 31, 2021	\$ 4,150	\$ 5,309	\$ 3,948	\$ 705	\$ 118	\$ 70	\$ 164	\$ 37	\$ 14,501
Charge-offs	—	—	—	—	—	—	—	—	—
Recoveries	1	—	—	—	—	—	—	—	1
Provision for loan losses	328	339	845	101	33	6	(54)	(4)	1,594
Balance at June 30, 2022	\$ 4,479	\$ 5,648	\$ 4,793	\$ 806	\$ 151	\$ 76	\$ 110	\$ 33	\$ 16,096
Balance at March 31, 2021	\$ 4,402	\$ 5,763	\$ 4,065	\$ 787	\$ 111	\$ 74	\$ 193	\$ 38	\$ 15,433
Charge-offs	—	(7)	—	—	—	—	—	—	(7)
Recoveries	—	—	—	—	—	—	—	—	—
Provision for loan losses	(276)	(440)	(155)	(56)	2	(6)	(11)	(3)	(945)
Balance at June 30, 2021	\$ 4,126	\$ 5,316	\$ 3,910	\$ 731	\$ 113	\$ 68	\$ 182	\$ 35	\$ 14,481
Balance at December 31, 2020	\$ 4,194	\$ 5,749	\$ 3,827	\$ 849	\$ 85	\$ 73	\$ 185	\$ 217	\$ 15,179
Charge-offs	—	(7)	—	—	—	—	—	—	(7)
Recoveries	—	—	—	—	—	—	—	—	—
Provision for loan losses	(68)	(426)	83	(118)	28	(5)	(3)	(182)	(691)
Balance at June 30, 2021	\$ 4,126	\$ 5,316	\$ 3,910	\$ 731	\$ 113	\$ 68	\$ 182	\$ 35	\$ 14,481
Allowance on loans evaluated for impairment:									
Individually	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively	4,479	5,648	4,793	806	151	76	110	33	16,096
Balance at June 30, 2022	\$ 4,479	\$ 5,648	\$ 4,793	\$ 806	\$ 151	\$ 76	\$ 110	\$ 33	\$ 16,096
Individually	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively	4,150	5,309	3,948	705	118	70	164	37	14,501
Balance at December 31, 2021	\$ 4,150	\$ 5,309	\$ 3,948	\$ 705	\$ 118	\$ 70	\$ 164	\$ 37	\$ 14,501
Recorded investment in loans evaluated for impairment:									
Individually	\$ 1,470	\$ 863	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,333
Collectively	1,465,946	658,833	432,966	105,264	26,695	32,185	18,568	4,062	2,744,519
Balance at June 30, 2022	\$ 1,467,416	\$ 659,696	\$ 432,966	\$ 105,264	\$ 26,695	\$ 32,185	\$ 18,568	\$ 4,062	\$ 2,746,852
Individually	\$ 1,553	\$ 1,547	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,100
Collectively	1,363,807	677,155	380,114	99,281	20,808	29,333	18,549	4,353	2,593,400
Balance at December 31, 2021	\$ 1,365,360	\$ 678,702	\$ 380,114	\$ 99,281	\$ 20,808	\$ 29,333	\$ 18,549	\$ 4,353	\$ 2,596,500

*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 six month periods ended June 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.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs		Nonaccrual TDRs	
	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021
Real estate mortgage	\$ 596	\$ 644	\$ 596	\$ 644
Production and intermediate-term	119	343	119	343
Total loans	\$ 715	\$ 987	\$ 715	\$ 987
Additional commitments to lend	\$ —	\$ —		

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 8.28 percent of the issued stock of the Bank as of June 30, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled \$40.4 billion and shareholders'

equity totaled \$1.8 billion. The Bank's earnings were \$216 million for the first six months of 2022. In addition, the Association held investments of \$1,106 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Employee Benefit Plans:				
Balance at beginning of period	\$ (90)	\$ (96)	\$ (91)	\$ (97)
Other comprehensive income before reclassifications	29	—	29	—
Amounts reclassified from AOCI	1	1	2	2
Net current period other comprehensive income	30	1	31	2
Balance at end of period	\$ (60)	\$ (95)	\$ (60)	\$ (95)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)					
	Three Months Ended June 30,			Six Months Ended June 30,		
	2022		2021	2022		2021
						Income Statement Line Item
Defined Benefit Pension Plans:						
Periodic pension costs	\$	(1)	\$	(1)	\$	(2)
Net amounts reclassified	\$	(1)	\$	(1)	\$	(2)
						See Note 7.

(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.

June 30, 2022									
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value				
<u>Recurring Measurements</u>									
Assets:									
Assets held in trust funds	\$ 625	\$ 625	\$ —	\$ —	\$ 625				
Recurring Assets	\$ 625	\$ 625	\$ —	\$ —	\$ 625				
Liabilities:									
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —				
<u>Nonrecurring Measurements</u>									
Assets:									
Impaired loans	\$ —	\$ —	\$ —	\$ —	\$ —				
Other property owned	—	—	—	—	—				
Nonrecurring Assets	\$ —	\$ —	\$ —	\$ —	\$ —				
<u>Other Financial Instruments</u>									
Assets:									
Cash	\$ 7	\$ 7	\$ —	\$ —	\$ 7				
Loans	2,719,798	—	—	2,589,704	2,589,704				
Other Financial Assets	\$ 2,719,805	\$ 7	\$ —	\$ 2,589,704	\$ 2,589,711				
Liabilities:									
Notes payable to AgFirst Farm Credit Bank	\$ 2,268,976	\$ —	\$ —	\$ 2,167,257	\$ 2,167,257				
Other Financial Liabilities	\$ 2,268,976	\$ —	\$ —	\$ 2,167,257	\$ 2,167,257				

December 31, 2021

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 118	\$ 118	\$ –	\$ –	\$ 118
Recurring Assets	\$ 118	\$ 118	\$ –	\$ –	\$ 118
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ –	\$ –	\$ –	\$ –	\$ –
Other property owned	–	–	–	–	–
Nonrecurring Assets	\$ –	\$ –	\$ –	\$ –	\$ –
Other Financial Instruments					
Assets:					
Cash	\$ 15	\$ 15	\$ –	\$ –	\$ 15
Loans	2,573,353	–	–	2,555,106	2,555,106
Other Financial Assets	\$ 2,573,368	\$ 15	\$ –	\$ 2,555,106	\$ 2,555,121
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 2,122,048	\$ –	\$ –	\$ 2,109,091	\$ 2,109,091
Other Financial Liabilities	\$ 2,122,048	\$ –	\$ –	\$ 2,109,091	\$ 2,109,091

Uncertainty in Measurements of Fair Value

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

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

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 7 — Employee Benefit Plans

The following table summarizes retirement and other postretirement benefit expenses for the Association:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Pension	\$ 465	\$ 695	\$ 737	\$ 1,340
401(k)	341	283	642	583
Other postretirement benefits	131	98	228	196
Total	\$ 937	\$ 1,076	\$ 1,607	\$ 2,119

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

Following approval by AgFirst, the FCA, and shareholders, effective July 1, 2022, the Association merged with MidAtlantic Farm Credit, ACA to form Horizon Farm Credit, ACA. The merger was accounted for under the acquisition method of accounting guidance in accordance with FASB Accounting Standards Codification 805 Business Combinations (ASC 805).

Note 10 — Subsequent Events

The Association evaluated subsequent events and determined that, other than disclosed in Note 9, there were none requiring disclosure through August 8, 2022, which was the date the financial statements were issued.