
MidAtlantic Farm Credit, ACA
SECOND QUARTER 2022

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2022 quarterly report of MidAtlantic 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 and regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

/s/ Thomas H. Truitt, Jr.
Chief Executive Officer

/s/ Brian E. Rosati
Chief Financial Officer

/s/ Brian L. Boyd
Chair of the Board

August 8, 2022

MidAtlantic 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 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/ Thomas H. Truitt, Jr.
Chief Executive Officer

/s/ Brian E. Rosati
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 MidAtlantic Farm Credit, ACA (Association) for the period ended June 30, 2022. The comments contained in this report 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 the financing of short-term and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio encompasses a well-diversified range of agricultural commodities, with cash grains, poultry and dairy representing the largest segments. In addition, the Association provides loans to lessors of agricultural real estate. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, impacts the level of dependency on any particular commodity.

Comparison of June 30, 2022 to December 31, 2021

Loans at June 30, 2022 totaled \$3,119,812 compared to \$3,040,890 at December 31, 2021, an increase of \$78,922 (2.60 percent) during the six months. The Association's allowance for loan losses of \$23,294 decreased \$6,986 (23.07 percent) during the first six months of 2022, resulting in net loans (loans less allowance for loan losses) of \$3,096,518 and \$3,010,610 at June 30, 2022 and December 31, 2021, respectively. Nonaccrual loans decreased \$2,141 (5.69 percent) from \$37,648 at December 31, 2021 to \$35,507 at June 30, 2022, resulting in a decrease in the ratio of nonaccrual loans to total loans from 1.24 percent to 1.14 percent. In addition, Other property owned decreased from \$1,368 at December 31, 2021 (seven properties) to \$735 at June 30, 2022 (four properties).

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 0.75 percent and 1.00 percent of loans, and 65.60 percent and 80.43 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 \$11,947, a decrease of \$1,363 (10.24 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 for the three months was up \$674 (3.56 percent); there are several key factors impacting the results. The increase in net interest income is primarily attributable to (a) an \$554 increase due to both a change in interest rate and a \$174 million increase in the average daily balance of accruing portfolio volume, and (b) a favorable variance of \$240 due to increased earnings on free cash held at the Bank, partially offset by (c) a \$120 decrease in net interest recognized attributable to nonaccruing loans.
- The Association recorded a reversal of allowance for loan losses of \$2,000 in the second quarter of 2022. No provision for loan losses was recorded in the second quarter of 2021.
- "Patronage refunds from other Farm Credit institutions" on the Consolidated Statements of Comprehensive Income of \$4,794 and \$4,409, respectively, includes accruals for the quarter ended June 30, 2022 and 2021, based on second quarter operations only; management anticipates additional income for the remaining quarters in 2022. 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 decrease in the second quarter of \$491 (7.28 percent) included, (a) a decrease of \$528 from Loan fees which is primarily related to the Paycheck Protection Program (PPP) loan fees received in 2021, (b) a decrease of \$321 due to losses on other transactions in the current year compared to gains in the prior year, (c) a decrease of \$129 from Fees for financially related services, (d) a decrease of \$44 due to decreased gains on sales of rural home loans, net, and (e) a decrease of \$8 from other noninterest income, partially offset by (f) a \$385 increase in Patronage related income and (g) an increase of \$154 on increased gains on sales of premises and equipment, net.
- Noninterest expense for the second quarter of 2022 was \$15,770 as compared to \$12,224 for the same period of 2021 or an increase of \$3,546 (29.01 percent).

The three month increase of \$2,037 (24.61 percent) for Salaries and employee benefits includes an increase of salaries due to annual compensation increases and merger related expenses of \$2,422, favorable employee benefits of \$473 and unfavorable deferred personnel costs of \$88. See also Note 7, Employee Benefit Plans, in the Notes to the Consolidated Financial Statements.

Insurance Fund Premium expense increased \$519 (59.04 percent) due to the increase in loan volume during the second quarter of 2022 as compared to the second quarter of 2021. The Farm Credit System Insurance Corporation (FCSIC) premium was 0.20 and 0.16 percent for the second quarters of 2022 and 2021, respectively. This premium increase occurred during the second quarter of 2022, but was made retroactive to January 1, 2022.

Purchased services and data processing expenses increased \$435 (67.97 percent) during the second quarter of 2022 as compared to the second quarter of 2021. The increase is principally due to hardware and software and merger related expenses.

Occupancy and equipment and Other operating expenses increased \$879 (38.84 percent) from \$2,263 to \$3,142, which includes expense increases in training, travel, and merger related expenses.

- Gains on other property owned, net increased \$324. The increase is primarily related to less OPO expenses in the second quarter of 2022 as compared to the second quarter of 2021, as well as OPO sales in the second quarter of 2022.
- The Association recorded a Provision for income taxes of \$136 for the second quarters of 2022 and 2021.

For the six months ended June 30, 2022

Net income for the six months ended June 30, 2022 totaled \$29,018 or \$3,583 (14.09 percent) more than the six months ended June 30, 2021. Major changes in the components of net income are identified as follows:

- Net interest income for the six months was up \$834 (2.20 percent); there are several key factors impacting the results. The increase in net interest income is primarily attributable to (a) a \$1,083 increase due to both a change in interest rate and a \$160 million increase in the average daily balance of accruing portfolio volume, and (b) a favorable variance of \$279 due to increased earnings on free cash held at the Bank, partially offset by (c) a \$528 decrease in net interest recognized attributable to nonaccruing loans.
- The Association recorded a reversal of allowance for loan losses of \$7,000 in the first six months of 2022. No provision for loan losses was recorded in the first six months of 2021. The Association's nonaccrual loans to total loans decreased from 1.24 percent at December 31, 2021 to 1.14 percent of the portfolio at June 30, 2022, and decreased from 1.36 percent at June 30, 2021. 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" on the Consolidated Statements of Comprehensive Income is \$9,118 as compared to \$8,475 for the six months ended June 30, 2022 and 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 for the six months was down \$884 (7.13 percent). The decrease is primarily related to (a) a decrease of \$766 from Loan fees which is primarily related to the Paycheck Protection Program (PPP) loan fees received in 2021, (b) a decrease of \$502 due to losses on other transactions in the current year compared to gains in the prior year, (c) decrease of \$189 due to decreased gains on sales of rural home loans, net, (d) a decrease of \$172 from Fees for financially related services, and (e) a decrease of \$16 in Other noninterest income, partially offset by (f) an increase of \$643 in Patronage related income and (g) an increase of \$118 due to higher gains on premises and equipment, net.
- Noninterest expense increased \$3,367 (13.61 percent) for the first six months of 2022 as compared to 2021.

The year-to-date increase for Salaries and employee benefits of \$1,143 (6.59 percent) includes (a) an increase of \$2,195 (17.08 percent) in salaries due to annual compensation increases, hiring new staff, and merger related expenses, (b) favorable employee benefits of \$1,351, and (c) unfavorable deferred personnel costs of \$299.

Insurance fund premium expense increased \$564 (32.47 percent) due to (a) the increase in loan volume during the first six months of 2022 as compared to 2021, and (b) the Farm Credit System Insurance Corporation (FCSIC) premium rate was 0.20 and 0.16 percent for the first six months of 2022 and 2021, respectively. This premium increase occurred during the second quarter of 2022, but was made retroactive to January 1, 2022.

Purchased services and data processing expenses increased \$1,071 (92.25 percent) during the first six months of 2022 as compared to 2021. The increase is principally due to hardware and software and merger related expenses.

Occupancy and equipment and Other operating expenses increased \$992 (23.04 percent) from \$4,306 to \$5,298, which includes increases in advertising, training, travel, and merger related expenses.

- Losses on other property owned, net decreased \$403. The decrease is primarily related to more gains on OPO sales which offset additional expenses for the first six months of 2022 as compared to 2021.
- The Association recorded a Provision for income taxes of \$216 for the six months ended June 30, 2022 and 2021, respectively.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA 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 the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The Association utilizes the variable rate note 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. Notes payable to the Bank at June 30, 2022 was \$2,439,359 compared to \$2,338,902 at December 31, 2021. The increase during the period of \$100,457 (4.30 percent) corresponds to the increase in the Association's loan volume, receipt of prior year Bank patronage, current year net cash generated from operating activities, offset by patronage payments to stockholders.

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 totaled \$671,957, an increase of \$666 (0.10 percent) compared to total members' equity of \$671,291 at December 31, 2021. This increase is attributed to (a) Total Comprehensive income of \$29,025 for the first six months ended June 30, 2022, (b) net member capital stock/participation certificates issued of \$20, (c) an estimated \$25,000 cash patronage distribution accrual for the first six months of 2022, and (d) in 2022 the Association's Board approved an additional \$3,378 2021 cash patronage distribution to stockholders in the March 2022 distribution, slightly offset by patronage adjustments during the second quarter.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. The System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

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

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The Tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is Tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to

maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in

other System institutions, divided by PCR risk-adjusted assets.

- The Tier 1 leverage ratio is Tier 1 capital, divided by average assets less regulatory deductions to Tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to Tier 1 capital.

The Association's regulatory ratios are shown in the following table:

Ratio	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of June 30, 2022	Capital Ratios as of June 30, 2021
Risk-adjusted ratios:			
CET1 Capital	7.00%	19.74%	20.63%
Tier 1 Capital	8.50%	19.74%	20.63%
Total Capital	10.50%	20.55%	21.84%
Permanent Capital Ratio	7.00%	19.89%	20.87%
Non-risk-adjusted:			
Tier 1 Leverage Ratio	5.00%	21.03%	22.02%
UREE Leverage Ratio	1.50%	20.65%	21.91%

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:

(dollars in millions)	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 30, 2023	Total
Investments	\$ -	\$ -	\$ -	\$ -
Loans	1,433	5,513	170,881	177,827
Total Assets	\$ 1,433	\$ 5,513	\$ 170,881	\$ 177,827
Note Payable to AgFirst				
Farm Credit Bank	\$ 1,102	\$ 4,237	\$ 131,332	\$ 136,671
Total Liabilities	\$ 1,102	\$ 4,237	\$ 131,332	\$ 136,671

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 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
<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 may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank'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 by going to AgFirst's web site at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

WHISTLEBLOWER

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline at 1-833-220-9773 or a link to the website is available at www.midatlanticfarmcredit.ethicspoint.com. The Association's Whistleblower Hotline website changed to www.horizonfarmcredit.ethicspoints.com effective July 1, 2022.

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 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.

MidAtlantic 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	\$ 8	\$ 344
Loans	3,119,812	3,040,890
Allowance for loan losses	(23,294)	(30,280)
Net loans	3,096,518	3,010,610
Loans held for sale	—	1
Other investments	356	303
Accrued interest receivable	17,688	13,092
Equity investments in other Farm Credit institutions	27,094	27,177
Premises and equipment, net	14,818	14,865
Other property owned	735	1,368
Accounts receivable	9,445	48,560
Other assets	3,440	3,963
Total assets	\$ 3,170,102	\$ 3,120,283
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 2,439,359	\$ 2,338,902
Accrued interest payable	5,129	4,396
Patronage refunds payable	25,067	80,575
Accounts payable	5,126	5,222
Advanced conditional payments	74	67
Other liabilities	23,390	19,830
Total liabilities	2,498,145	2,448,992
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	11,834	11,814
Retained earnings		
Allocated	407,028	407,650
Unallocated	253,523	252,262
Accumulated other comprehensive income (loss)	(428)	(435)
Total members' equity	671,957	671,291
Total liabilities and members' equity	\$ 3,170,102	\$ 3,120,283

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
Interest Income				
Loans	\$ 34,144	\$ 31,657	\$ 66,388	\$ 63,318
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	14,546	12,733	27,562	25,326
Net interest income	19,598	18,924	38,826	37,992
Provision for (reversal of) allowance for loan losses	(2,000)	—	(7,000)	—
Net interest income after provision for (reversal of) allowance for loan losses	21,598	18,924	45,826	37,992
Noninterest Income				
Loan fees	245	773	449	1,215
Fees for financially related services	915	1,044	1,387	1,559
Lease income	35	35	70	70
Patronage refunds from other Farm Credit institutions	4,794	4,409	9,118	8,475
Gains (losses) on sales of rural home loans, net	241	285	557	746
Gains (losses) on sales of premises and equipment, net	154	—	154	36
Gains (losses) on other transactions	(136)	185	(229)	273
Other noninterest income	7	15	16	32
Total noninterest income	6,255	6,746	11,522	12,406
Noninterest Expense				
Salaries and employee benefits	10,313	8,276	18,490	17,347
Occupancy and equipment	550	531	1,088	1,044
Insurance Fund premiums	1,398	879	2,301	1,737
Purchased services	923	512	1,761	901
Data processing	152	128	471	260
Other operating expenses	2,592	1,732	4,210	3,262
(Gains) losses on other property owned, net	(158)	166	(207)	196
Total noninterest expense	15,770	12,224	28,114	24,747
Income before income taxes	12,083	13,446	29,234	25,651
Provision for income taxes	136	136	216	216
Net income	\$ 11,947	\$ 13,310	\$ 29,018	\$ 25,435
Other comprehensive income net of tax				
Employee benefit plans adjustments	3	4	7	8
Comprehensive income	\$ 11,950	\$ 13,314	\$ 29,025	\$ 25,443

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

MidAtlantic 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	\$ 11,400	\$ 405,105	\$ 249,314	\$ (495)	\$ 665,324
Comprehensive income			25,435	8	25,443
Capital stock/participation certificates issued/(retired), net	231				231
Patronage distribution					
Cash			(15,000)		(15,000)
Patronage distribution adjustment		1,923	(4,923)		(3,000)
Balance at June 30, 2021	\$ 11,631	\$ 407,028	\$ 254,826	\$ (487)	\$ 672,998
Balance at December 31, 2021	\$ 11,814	\$ 407,650	\$ 252,262	\$ (435)	\$ 671,291
Comprehensive income			29,018	7	29,025
Capital stock/participation certificates issued/(retired), net	20				20
Patronage distribution					
Cash			(25,000)		(25,000)
Patronage distribution adjustment		(622)	(2,757)		(3,379)
Balance at June 30, 2022	\$ 11,834	\$ 407,028	\$ 253,523	\$ (428)	\$ 671,957

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

MidAtlantic 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 MidAtlantic 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	\$ 2,047,569	\$ 2,000,305
Production and intermediate-term	754,076	758,322
Loans to cooperatives	24,696	20,923
Processing and marketing	89,989	81,753
Farm-related business	56,103	53,564
Communication	62,344	42,407
Power and water/waste disposal	604	725
Rural residential real estate	56,878	57,922
International	24,973	24,969
Lease receivables	2,580	—
Total loans	\$ 3,119,812	\$ 3,040,890

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:

June 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	\$ 43,193	\$ 3,081	\$ 6,089	\$ —	\$ —	\$ —	\$ 49,282	\$ 3,081
Production and intermediate-term	50,184	70,775	20,528	4,146	—	—	70,712	74,921
Loans to cooperatives	6,461	—	18,274	—	—	—	24,735	—
Processing and marketing	23,400	30,953	3,635	—	10,716	—	37,751	30,953
Farm-related business	1,579	—	—	—	—	—	1,579	—
Communication	37,007	—	25,459	—	—	—	62,466	—
Power and water/waste disposal	—	—	605	—	—	—	605	—
International	—	—	25,000	—	—	—	25,000	—
Lease receivables	—	—	2,596	—	—	—	2,596	—
Total	\$ 161,824	\$ 104,809	\$ 102,186	\$ 4,146	\$ 10,716	\$ —	\$ 274,726	\$ 108,955

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	\$ 44,746	\$ 3,134	\$ 286	\$ —	\$ —	\$ —	\$ 45,032	\$ 3,134
Production and intermediate-term	56,024	73,391	19,339	2,284	—	—	75,363	75,675
Loans to cooperatives	9,765	—	11,205	—	—	—	20,970	—
Processing and marketing	22,744	30,297	3,803	—	3,555	—	30,102	30,297
Farm-related business	1,579	—	65	—	—	—	1,644	—
Communication	17,243	—	25,258	—	—	—	42,501	—
Power and water/waste disposal	—	—	726	—	—	—	726	—
International	—	—	25,000	—	—	—	25,000	—
Total	\$ 152,101	\$ 106,822	\$ 85,682	\$ 2,284	\$ 3,555	\$ —	\$ 241,338	\$ 109,106

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:			Communication:		
Acceptable	95.17%	94.31%	Acceptable	100.00%	100.00%
OAEM	2.22	2.62	OAEM	0.00	0.00
Substandard/doubtful/loss	2.61	3.07	Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	95.92%	94.86%	Acceptable	100.00%	100.00%
OAEM	1.91	2.65	OAEM	0.00	0.00
Substandard/doubtful/loss	2.17	2.49	Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	70.86%	Acceptable	96.27%	95.97%
OAEM	0.00	29.14	OAEM	2.25	2.01
Substandard/doubtful/loss	0.00	0.00	Substandard/doubtful/loss	1.48	2.02
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			International:		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	0.00	0.00	OAEM	0.00	0.00
Substandard/doubtful/loss	0.00	0.00	Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			Lease receivables:		
Acceptable	95.24%	95.35%	Acceptable	100.00%	0.00%
OAEM	4.74	4.63	OAEM	0.00	0.00
Substandard/doubtful/loss	0.02	0.02	Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%		100.00%	0.00%
			Total loans:		
			Acceptable	95.69%	94.61%
			OAEM	2.04	2.71
			Substandard/doubtful/loss	2.27	2.68
				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
Real estate mortgage	\$ 9,082	\$ 12,696	\$ 21,778	\$ 2,037,964	\$ 2,059,742
Production and intermediate-term	1,585	6,263	7,848	750,978	758,826
Loans to cooperatives	—	—	—	24,734	24,734
Processing and marketing	—	—	—	90,126	90,126
Farm-related business	56	9	65	56,316	56,381
Communication	—	—	—	62,353	62,353
Power and water/waste disposal	—	—	—	606	606
Rural residential real estate	105	92	197	56,916	57,113
International	—	—	—	25,030	25,030
Lease receivables	—	—	—	2,589	2,589
Total	\$ 10,828	\$ 19,060	\$ 29,888	\$ 3,107,612	\$ 3,137,500

	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	\$ 7,957	\$ 13,325	\$ 21,282	\$ 1,987,868	\$ 2,009,150
Production and intermediate-term	3,226	4,574	7,800	754,348	762,148
Loans to cooperatives	—	—	—	20,945	20,945
Processing and marketing	—	—	—	81,795	81,795
Farm-related business	169	9	178	53,537	53,715
Communication	—	—	—	42,411	42,411
Power and water/waste disposal	—	—	—	741	741
Rural residential real estate	507	87	594	57,482	58,076
International	—	—	—	25,001	25,001
Total	\$ 11,859	\$ 17,995	\$ 29,854	\$ 3,024,128	\$ 3,053,982

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	\$ 27,557	\$ 28,474
Production and intermediate-term	7,589	8,540
Farm-related business	9	9
Rural residential real estate	352	625
Total	\$ 35,507	\$ 37,648
Accruing restructured loans:		
Real estate mortgage	\$ 19,459	\$ 21,745
Production and intermediate-term	3,768	4,957
Farm-related business	117	133
Rural residential real estate	463	472
Total	\$ 23,807	\$ 27,307
Accruing loans 90 days or more past due:		
Production and intermediate-term	\$ 244	\$ 220
Total	\$ 244	\$ 220
Total nonperforming loans	\$ 59,558	\$ 65,175
Other property owned	735	1,368
Total nonperforming assets	\$ 60,293	\$ 66,543
Nonaccrual loans as a percentage of total loans	1.14%	1.24%
Nonperforming assets as a percentage of total loans and other property owned	1.93%	2.19%
Nonperforming assets as a percentage of capital	8.97%	9.91%

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	\$ 14,916	\$ 14,953
Past due	20,591	22,695
Total	\$ 35,507	\$ 37,648
Impaired accrual loans:		
Restructured	\$ 23,807	\$ 27,307
90 days or more past due	244	220
Total	\$ 24,051	\$ 27,527
Total impaired loans	\$ 59,558	\$ 65,175
Additional commitments to lend	\$ —	\$ 23

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	
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	\$ 7,765	\$ 9,233	\$ 2,965	\$ 7,801	\$ 57	\$ 7,996	\$ 69
Production and intermediate-term	4,695	5,633	2,383	4,717	35	4,835	41
Farm-related business	9	25	3	9	—	9	—
Rural residential real estate	362	518	77	363	3	373	3
Total	\$ 12,831	\$ 15,409	\$ 5,428	\$ 12,890	\$ 95	\$ 13,213	\$ 113
With no related allowance for credit losses:							
Real estate mortgage	\$ 39,251	\$ 44,835	\$ —	\$ 39,429	\$ 291	\$ 40,419	\$ 345
Production and intermediate-term	6,906	8,956	—	6,937	51	7,112	61
Farm-related business	117	261	—	117	1	121	1
Rural residential real estate	453	502	—	456	3	466	4
Total	\$ 46,727	\$ 54,554	\$ —	\$ 46,939	\$ 346	\$ 48,118	\$ 411
Total impaired loans:							
Real estate mortgage	\$ 47,016	\$ 54,068	\$ 2,965	\$ 47,230	\$ 348	\$ 48,415	\$ 414
Production and intermediate-term	11,601	14,589	2,383	11,654	86	11,947	102
Farm-related business	126	286	3	126	1	130	1
Rural residential real estate	815	1,020	77	819	6	839	7
Total	\$ 59,558	\$ 69,963	\$ 5,428	\$ 59,829	\$ 441	\$ 61,331	\$ 524

	December 31, 2021			Year Ended December 31, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 9,212	\$ 10,920	\$ 3,064	\$ 10,306	\$ 441
Production and intermediate-term	5,241	6,007	2,783	5,862	251
Farm-related business	9	25	3	9	1
Rural residential real estate	445	565	90	498	21
Total	\$ 14,907	\$ 17,517	\$ 5,940	\$ 16,675	\$ 714
With no related allowance for credit losses:					
Real estate mortgage	\$ 41,007	\$ 45,995	\$ —	\$ 45,871	\$ 1,964
Production and intermediate-term	8,476	10,607	—	9,483	406
Farm-related business	133	276	—	150	7
Rural residential real estate	652	752	—	730	31
Total	\$ 50,268	\$ 57,630	\$ —	\$ 56,234	\$ 2,408
Total impaired loans:					
Real estate mortgage	\$ 50,219	\$ 56,915	\$ 3,064	\$ 56,177	\$ 2,405
Production and intermediate-term	13,717	16,614	2,783	15,345	657
Farm-related business	142	301	3	159	8
Rural residential real estate	1,097	1,317	90	1,228	52
Total	\$ 65,175	\$ 75,147	\$ 5,940	\$ 72,909	\$ 3,122

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	\$ 11,303	\$ 12,453	\$ 1,194	\$ 66	\$ —	\$ 247	\$ 21	\$ —	\$ 25,284
Charge-offs	—	—	—	—	—	(4)	—	—	(4)
Recoveries	14	—	—	—	—	—	—	—	14
Provision for loan losses	(793)	(1,125)	(117)	5	—	(12)	—	42	(2,000)
Balance at June 30, 2022	\$ 10,524	\$ 11,328	\$ 1,077	\$ 71	\$ —	\$ 231	\$ 21	\$ 42	\$ 23,294
Balance at December 31, 2021	\$ 12,282	\$ 15,941	\$ 1,691	\$ 66	\$ —	\$ 278	\$ 22	\$ —	\$ 30,280
Charge-offs	—	—	—	—	—	(4)	—	—	(4)
Recoveries	14	4	—	—	—	—	—	—	18
Provision for loan losses	(1,772)	(4,617)	(614)	5	—	(43)	(1)	42	(7,000)
Balance at June 30, 2022	\$ 10,524	\$ 11,328	\$ 1,077	\$ 71	\$ —	\$ 231	\$ 21	\$ 42	\$ 23,294
Balance at March 31, 2021	\$ 15,257	\$ 18,446	\$ 2,110	\$ 114	\$ 2	\$ 330	\$ 26	\$ —	\$ 36,285
Charge-offs	—	—	—	—	—	—	—	—	—
Recoveries	8	13	—	—	—	—	—	—	21
Provision for loan losses	140	(198)	117	(1)	—	(58)	—	—	—
Balance at June 30, 2021	\$ 15,405	\$ 18,261	\$ 2,227	\$ 113	\$ 2	\$ 272	\$ 26	\$ —	\$ 36,306
Balance at December 31, 2020	\$ 15,617	\$ 18,333	\$ 1,719	\$ 115	\$ 2	\$ 323	\$ 22	\$ —	\$ 36,131
Charge-offs	—	—	—	—	—	—	—	—	—
Recoveries	154	21	—	—	—	—	—	—	175
Provision for loan losses	(366)	(93)	508	(2)	—	(51)	4	—	—
Balance at June 30, 2021	\$ 15,405	\$ 18,261	\$ 2,227	\$ 113	\$ 2	\$ 272	\$ 26	\$ —	\$ 36,306
Allowance on loans evaluated for impairment:									
Individually	\$ 2,965	\$ 2,383	\$ 3	\$ —	\$ —	\$ 77	\$ —	\$ —	\$ 5,428
Collectively	7,559	8,945	1,074	71	—	154	21	42	17,866
Balance at June 30, 2022	\$ 10,524	\$ 11,328	\$ 1,077	\$ 71	\$ —	\$ 231	\$ 21	\$ 42	\$ 23,294
Individually	\$ 3,064	\$ 2,783	\$ 3	\$ —	\$ —	\$ 90	\$ —	\$ —	\$ 5,940
Collectively	9,218	13,158	1,688	66	—	188	22	—	24,340
Balance at December 31, 2021	\$ 12,282	\$ 15,941	\$ 1,691	\$ 66	\$ —	\$ 278	\$ 22	\$ —	\$ 30,280
Recorded investment in loans evaluated for impairment:									
Individually	\$ 27,557	\$ 7,589	\$ 9	\$ —	\$ —	\$ 352	\$ —	\$ —	\$ 35,507
Collectively	2,032,185	751,237	171,232	62,353	606	56,761	25,030	2,589	3,101,993
Balance at June 30, 2022	\$ 2,059,742	\$ 758,826	\$ 171,241	\$ 62,353	\$ 606	\$ 57,113	\$ 25,030	\$ 2,589	\$ 3,137,500
Individually	\$ 28,474	\$ 8,540	\$ 9	\$ —	\$ —	\$ 625	\$ —	\$ —	\$ 37,648
Collectively	1,980,676	753,608	156,446	42,411	741	57,451	25,001	—	3,016,334
Balance at December 31, 2021	\$ 2,009,150	\$ 762,148	\$ 156,455	\$ 42,411	\$ 741	\$ 58,076	\$ 25,001	\$ —	\$ 3,053,982

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

Three Months Ended June 30, 2022					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 756	\$ 3,230	\$ –	\$ 3,986	
Total	\$ 756	\$ 3,230	\$ –	\$ 3,986	
Post-modification:					
Real estate mortgage	\$ 756	\$ 3,226	\$ –	\$ 3,982	\$ –
Total	\$ 756	\$ 3,226	\$ –	\$ 3,982	\$ –

Six Months Ended June 30, 2022					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 756	\$ 3,736	\$ –	\$ 4,492	
Production and intermediate-term	–	695	–	695	
Total	\$ 756	\$ 4,431	\$ –	\$ 5,187	
Post-modification:					
Real estate mortgage	\$ 756	\$ 3,766	\$ –	\$ 4,522	\$ –
Production and intermediate-term	–	697	–	697	–
Total	\$ 756	\$ 4,463	\$ –	\$ 5,219	\$ –

Three Months Ended June 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ –	\$ 2,710	\$ –	\$ 2,710	
Production and intermediate-term	–	2,412	–	2,412	
Total	\$ –	\$ 5,122	\$ –	\$ 5,122	
Post-modification:					
Real estate mortgage	\$ –	\$ 2,718	\$ –	\$ 2,718	\$ –
Production and intermediate-term	–	2,504	–	2,504	–
Total	\$ –	\$ 5,222	\$ –	\$ 5,222	\$ –

Six Months Ended June 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 270	\$ 7,873	\$ –	\$ 8,143	
Production and intermediate-term	360	4,520	–	4,880	
Processing and marketing	–	–	–	–	
Total	\$ 630	\$ 12,393	\$ –	\$ 13,023	
Post-modification:					
Real estate mortgage	\$ 266	\$ 7,908	\$ –	\$ 8,174	\$ –
Production and intermediate-term	372	4,610	–	4,982	–
Processing and marketing	1	–	–	1	–
Total	\$ 639	\$ 12,518	\$ –	\$ 13,157	\$ –

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 periods presented. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Defaulted troubled debt restructurings:				
Real estate mortgage	\$ —	\$ 972	\$ —	\$ 972
Production and intermediate-term	280	5	280	229
Rural residential real estate	—	—	89	—
Total	\$ 280	\$ 977	\$ 369	\$ 1,201

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

	Total TDRs		Nonaccrual TDRs	
	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021
Real estate mortgage	\$ 33,849	\$ 36,495	\$ 14,390	\$ 14,750
Production and intermediate-term	7,841	9,493	4,073	4,536
Farm-related business	126	142	9	9
Rural residential real estate	611	635	148	163
Total loans	\$ 42,427	\$ 46,765	\$ 18,620	\$ 19,458
Additional commitments to lend	\$ —	\$ 23		

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 9.54 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 \$2,597 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	\$ (431)	\$ (491)	\$ (435)	\$ (495)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	3	4	7	8
Net current period other comprehensive income	3	4	7	8
Balance at end of period	\$ (428)	\$ (487)	\$ (428)	\$ (487)

Reclassifications Out of Accumulated Other Comprehensive Income (b)					
	Three Months Ended June 30,		Six Months Ended June 30,		Income Statement Line Item
	2022	2021	2022	2020	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (3)	\$ (4)	\$ (7)	\$ (8)	See Note 7.
Net amounts reclassified	\$ (3)	\$ (4)	\$ (7)	\$ (8)	

(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	\$ 2,720	\$ 2,720	\$ —	\$ —	\$	2,720
Recurring Assets	\$ 2,720	\$ 2,720	\$ —	\$ —	\$	2,720
Liabilities:						
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$	—
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$ 7,403	\$ —	\$ —	\$ 7,403	\$	7,403
Other property owned	735	—	—	817		817
Nonrecurring Assets	\$ 8,138	\$ —	\$ —	\$ 8,220	\$	8,220
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$ 8	\$ 8	\$ —	\$ —	\$	8
Loans	3,089,115	—	—	2,935,564		2,935,564
Other Financial Assets	\$ 3,089,123	\$ 8	\$ —	\$ 2,935,564	\$	2,935,572
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 2,439,359	\$ —	\$ —	\$ 2,328,441	\$	2,328,441
Other Financial Liabilities	\$ 2,439,359	\$ —	\$ —	\$ 2,328,441	\$	2,328,441

December 31, 2021

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 2,985	\$ 2,985	\$ —	\$ —	\$ 2,985
Recurring Assets	\$ 2,985	\$ 2,985	\$ —	\$ —	\$ 2,985
Liabilities:					
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 8,967	\$ —	\$ —	\$ 8,967	\$ 8,967
Other property owned	1,368	—	—	1,520	1,520
Nonrecurring Assets	\$ 10,335	\$ —	\$ —	\$ 10,487	\$ 10,487
Other Financial Instruments					
Assets:					
Cash	\$ 344	\$ 344	\$ —	\$ —	\$ 344
Loans	3,001,644	—	—	2,982,289	2,982,289
Other Financial Assets	\$ 3,001,988	\$ 344	\$ —	\$ 2,982,289	\$ 2,982,633
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 2,338,902	\$ —	\$ —	\$ 2,325,417	\$ 2,325,417
Other Financial Liabilities	\$ 2,338,902	\$ —	\$ —	\$ 2,325,417	\$ 2,325,417

Uncertainty in Measurements of Fair Value

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Pension	\$ 845	\$ 1,491	\$ 1,559	\$ 2,906
401(k)	447	394	837	820
Other postretirement benefits	192	164	335	329
Total	\$ 1,484	\$ 2,049	\$ 2,731	\$ 4,055

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 AgChoice Farm Credit, ACA to form Horizon Farm Credit, ACA. The merger was accounted for under the acquisition method of accounting guidance in accordance with the 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.