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*First South Farm Credit, ACA*

# SECOND QUARTER 2022

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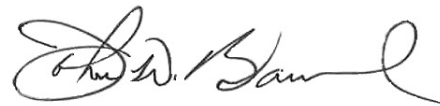
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## CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2022 quarterly report of First South 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.



James F. Martin III  
Chairman of the Board



John W. Barnard  
Chief Executive Officer



Sarah Lutz  
Chief Financial Officer

August 8, 2022

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*First South Farm Credit, ACA*

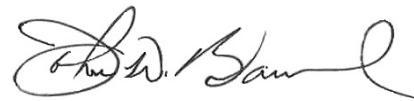
# Report on Internal Control Over Financial Reporting

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.



John W. Barnard  
Chief Executive Officer



Sarah Lutz  
Chief Financial Officer

August 8, 2022

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*First South Farm Credit, ACA*

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

*(dollars in thousands)*

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

## LOAN PORTFOLIO

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

### *Comparison of June 30, 2022 to December 31, 2021*

The gross loan volume of the Association as of June 30, 2022, was \$2,945,460 as compared to \$2,773,183 at December 31, 2021. Net loans outstanding at June 30, 2022, were \$2,924,691 as compared to \$2,753,519 at December 31, 2021. Net loans accounted for 96.21 percent of total assets at June 30, 2022, as compared to 94.90 percent of total assets at December 31, 2021.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans totaled \$1,730 on June 30, 2022 as compared to \$1,871 on December 31, 2021, a decrease of \$141.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2022, was \$20,769 compared to \$19,664 at December 31, 2021, and was considered by management to be adequate to cover possible losses.

## RESULTS OF OPERATIONS

### *For the three months ended June 30, 2022*

Net income for the three months ended June 30, 2022, totaled \$11,196, as compared to \$10,262 for the same period in 2021. The increase in net income primarily relates to an increase in net interest income due to increased loan volume and a continued low direct note rate. A more detailed explanation of other changes will be discussed below.

Noninterest income for the three months ended June 30, 2022 totaled \$5,811 as compared to \$5,620 for the same period of 2021, an increase of \$191. The increase is the result of an increase of \$585 in patronage refunds due to loan growth, offset by a decrease on total fee income of \$351.

Noninterest expense for the three months ended June 30, 2022 increased \$1,010 compared to the same period of 2021. The increase is attributable to increased salaries and employee benefits of \$323, an increase in insurance fund premiums of \$553, and an increase in purchased services of \$361. The increases mentioned above were offset by a decrease in other operating expenses of \$348.

The Association recorded a provision for loan loss of \$750 for the three months ended June 30, 2022 compared to \$1,240 for the same period of 2021. The Association did not record a provision for income taxes for the three months ended June 30, 2022 nor June 30, 2021.

### *For the six months ended June 30, 2022*

Net income for the six months ended June 30, 2022, totaled \$22,599, as compared to \$20,161 for the same period in 2021, an increase of \$2,438. The increase for the six months ended June 30, 2022 are discussed in more detail below.

Net interest income after the provision for loan losses for the six months ended June 30, 2022 increased \$2,836 as compared to the same period in 2021. The increase in net interest income after the provision for loan losses was primarily the result of increased growth in the overall loan portfolio and reduced interest expense paid to AgFirst Farm Credit Bank.

Noninterest income for the six months ended June 30, 2022, totaled \$11,326 as compared to \$10,474 for the same period of 2021, an increase of \$852. The increase is attributable to an

increase in patronage refunds of \$1,176, offset by a decrease in total fee income of \$300.

Noninterest expense for the six months ended June 30, 2022, increased \$1,252 compared to the same period of 2021. The increase in noninterest expense was due to an increase in salaries and employee benefits of \$546, along with an increase of \$673 in insurance fund premiums. The above increases were offset by a decrease of \$750 in other operating expenses.

The Association recorded provision for loan losses of \$1,000 for the six months ended June 30, 2022, compared to a provision for loan losses of \$1,240 for the same period in 2021. The Association also recorded a provision for income taxes of \$4 for the six month periods ended June 30, 2022 compared to \$6 for the same period of 2021.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the AgFirst Farm Credit Bank (Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The 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. The total notes payable to the Bank at June 30, 2022 was \$2,437,577 as compared to \$2,293,490 at December 31, 2021, an increase of \$144,087. The increase in notes payable from December 31, 2021 to June 30, 2022 is primarily related to growth in loan volume.

## CAPITAL RESOURCES

Total members' equity at June 30, 2022 and December 31, 2021 was \$565,978 and \$542,954, respectively. Allocated and unallocated retained earnings changes reflect the impact of normal earnings and patronage payments.

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 December 31, 2021
Risk-adjusted ratios:			
CET1 Capital	7.00%	16.82%	16.48%
Tier 1 Capital	8.50%	16.82%	16.48%
Total Capital	10.50%	17.49%	17.17%
Permanent Capital Ratio	7.00%	16.97%	16.64%
Non-risk-adjusted:			
Tier 1 Leverage Ratio	5.00%	17.39%	16.94%
UREE Leverage Ratio	1.50%	11.24%	12.15%

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, investments, and Systemwide Debt Securities that are issued by the Funding Corporation on the Bank's and Association's behalf.

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

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

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

<i>dollars in millions</i>	Due in 2022	Due in 2023 and thereafter	Total
Loans	\$ 3,204	\$ 76,169	\$ 79,373
Total	\$ 3,204	\$ 76,169	\$ 79,373
Note Payable to			
AgFirst Farm Credit Bank	\$ 2,608	\$ 61,991	\$ 64,599
Total	\$ 2,608	\$ 61,991	\$ 64,599

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
<b>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</b>	
<ul style="list-style-type: none"> <li>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.</li> <li>Changes the present incurred loss impairment guidance for loans to an expected loss model.</li> <li>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.</li> <li>Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> <li>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,</li> <li>An allowance will be established for estimated credit losses on any debt securities,</li> <li>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.</li> </ol> </li> <li>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.</li> <li>The guidance is expected to be adopted January 1, 2023.</li> </ul>
<b>ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures</b>	
<ul style="list-style-type: none"> <li>This Update responds to feedback received during the Post Implementation Review process conducted by the FASB related to Topic 326.</li> <li><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.</li> <li><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.</li> </ul>	<ul style="list-style-type: none"> <li>These amendments will be implemented in conjunction with the adoption of ASU 2016-13.</li> </ul>

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## STOCKHOLDER INVESTMENT

Stockholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst Farm Credit Bank's Quarterly and Annual Reports are on the AgFirst website, [www.agfirst.com](http://www.agfirst.com), or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Copies of the Association's Annual and Quarterly reports are also on the Association's website, [www.firstsouthfarmcredit.com](http://www.firstsouthfarmcredit.com), or may be obtained upon request free of charge by calling 1-601-707-2928 or writing Sarah Lutz, First South Farm Credit, ACA, 574 Highland Colony Parkway, Three Paragon Centre, Suite 100, Ridgeland, MS 39157. 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.

# First South Farm Credit, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>June 30, 2022</b> <i>(unaudited)</i>	<b>December 31, 2021</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 41	\$ 206
Loans	2,945,460	2,773,183
Allowance for loan losses	(20,769)	(19,664)
Net loans	2,924,691	2,753,519
Accrued interest receivable	22,400	20,743
Equity investments in other Farm Credit institutions	65,584	65,475
Premises and equipment, net	17,180	13,876
Other property owned	35	406
Accounts receivable	8,901	45,963
Other assets	1,110	1,252
Total assets	<b>\$ 3,039,942</b>	<b>\$ 2,901,440</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 2,437,577	\$ 2,293,490
Accrued interest payable	5,105	4,464
Patronage refunds payable	48	26,239
Accounts payable	6,235	4,734
Other liabilities	24,999	29,559
Total liabilities	<b>2,473,964</b>	<b>2,358,486</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Capital stock and participation certificates	53,360	53,098
Retained earnings		
Allocated	256,357	256,357
Unallocated	271,355	248,756
Accumulated other comprehensive income (loss)	(15,094)	(15,257)
Total members' equity	<b>565,978</b>	<b>542,954</b>
Total liabilities and members' equity	<b>\$ 3,039,942</b>	<b>\$ 2,901,440</b>

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

**First South Farm Credit, ACA**  
**Consolidated Statements of**  
**Comprehensive Income**

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the Three Months</b>		<b>For the Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
<b>Interest Income</b>				
Loans	<b>\$ 32,110</b>	\$ 28,071	<b>\$ 61,640</b>	\$ 54,582
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	<b>14,700</b>	11,924	<b>27,595</b>	23,133
Net interest income	<b>17,410</b>	16,147	<b>34,045</b>	31,449
Provision for loan losses	<b>750</b>	1,240	<b>1,000</b>	1,240
Net interest income after provision for loan losses	<b>16,660</b>	14,907	<b>33,045</b>	30,209
<b>Noninterest Income</b>				
Loan fees	<b>921</b>	1,181	<b>2,079</b>	2,317
Fees for financially related services	<b>38</b>	129	<b>71</b>	133
Lease income	<b>2</b>	—	<b>2</b>	—
Patronage refunds from other Farm Credit institutions	<b>4,736</b>	4,151	<b>8,985</b>	7,809
Gains (losses) on sales of premises and equipment, net	<b>114</b>	159	<b>189</b>	215
Total noninterest income	<b>5,811</b>	5,620	<b>11,326</b>	10,474
<b>Noninterest Expense</b>				
Salaries and employee benefits	<b>7,619</b>	7,296	<b>15,215</b>	14,669
Occupancy and equipment	<b>407</b>	412	<b>854</b>	859
Insurance Fund premiums	<b>1,337</b>	784	<b>2,184</b>	1,511
Purchased services	<b>530</b>	169	<b>939</b>	297
Data processing	<b>115</b>	107	<b>222</b>	209
Other operating expenses	<b>1,234</b>	1,582	<b>2,311</b>	3,061
(Gains) losses on other property owned, net	<b>33</b>	(85)	<b>43</b>	(90)
Total noninterest expense	<b>11,275</b>	10,265	<b>21,768</b>	20,516
Income before income taxes	<b>11,196</b>	10,262	<b>22,603</b>	20,167
Provision for income taxes	<b>—</b>	—	<b>4</b>	6
<b>Net income</b>	<b>\$ 11,196</b>	\$ 10,262	<b>\$ 22,599</b>	\$ 20,161
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments	<b>82</b>	605	<b>163</b>	1,209
<b>Comprehensive income</b>	<b>\$ 11,278</b>	\$ 10,867	<b>\$ 22,762</b>	\$ 21,370

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



**First South Farm Credit, ACA**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2020	\$ 52,326	\$ 256,357	\$ 203,004	\$ (30,390)	\$ 481,297
Comprehensive income			20,161	1,209	21,370
Capital stock/participation certificates issued/(retired), net	373				373
Balance at June 30, 2021	\$ 52,699	\$ 256,357	\$ 223,165	\$ (29,181)	\$ 503,040
<b>Balance at December 31, 2021</b>	<b>\$ 53,098</b>	<b>\$ 256,357</b>	<b>\$ 248,756</b>	<b>\$ (15,257)</b>	<b>\$ 542,954</b>
Comprehensive income			22,599	163	22,762
Capital stock/participation certificates issued/(retired), net	262				262
<b>Balance at June 30, 2022</b>	<b>\$ 53,360</b>	<b>\$ 256,357</b>	<b>\$ 271,355</b>	<b>\$ (15,094)</b>	<b>\$ 565,978</b>

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

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*First South 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 First South 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	\$ 2,331,720	\$ 2,222,461
Production and intermediate-term	462,904	410,542
Loans to cooperatives	12,558	8,553
Processing and marketing	81,667	83,720
Farm-related business	29,620	24,026
Communication	7,722	6,253
Rural residential real estate	19,269	17,628
Total loans	<u>\$ 2,945,460</u>	<u>\$ 2,773,183</u>

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	\$	12,042	\$ 10,829	\$ -	\$ -	\$ 9,190	\$ -	\$ 21,232	\$ 10,829
Production and intermediate-term		7,637	11,099	159	-	166	-	7,962	11,099
Loans to cooperatives		12,588	-	-	-	-	-	12,588	-
Processing and marketing		23,931	23,899	9,679	-	16,487	-	50,097	23,899
Farm-related business		3,875	-	41	-	-	-	3,916	-
Communication		7,753	-	-	-	-	-	7,753	-
Rural residential real estate		-	-	-	-	36	-	36	-
Total	\$	<u>67,826</u>	<u>\$ 45,827</u>	<u>\$ 9,879</u>	<u>\$ -</u>	<u>\$ 25,879</u>	<u>\$ -</u>	<u>\$ 103,584</u>	<u>\$ 45,827</u>

		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	\$	12,677	\$ 11,249	\$ -	\$ -	\$ 10,667	\$ -	\$ 23,344	\$ 11,249
Production and intermediate-term		11,263	18,204	173	-	243	-	11,679	18,204
Loans to cooperatives		8,583	-	-	-	-	-	8,583	-
Processing and marketing		21,553	24,649	12,608	1,595	15,410	-	49,571	26,244
Farm-related business		-	-	42	-	-	-	42	-
Communication		6,284	-	-	-	-	-	6,284	-
Rural residential real estate		-	-	-	-	37	-	37	-
Total	\$	<u>60,360</u>	<u>\$ 54,102</u>	<u>\$ 12,823</u>	<u>\$ 1,595</u>	<u>\$ 26,357</u>	<u>\$ -</u>	<u>\$ 99,540</u>	<u>\$ 55,697</u>

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
<b>Real estate mortgage:</b>			<b>Farm-related business:</b>		
Acceptable	98.39%	97.96%	Acceptable	100.00%	100.00%
OAEM	1.17	1.47	OAEM	—	—
Substandard/doubtful/loss	0.44	0.57	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Communication:</b>		
Acceptable	94.24%	92.22%	Acceptable	100.00%	100.00%
OAEM	4.09	5.07	OAEM	—	—
Substandard/doubtful/loss	1.67	2.71	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Loans to cooperatives:</b>			<b>Rural residential real estate:</b>		
Acceptable	100.00%	100.00%	Acceptable	98.81%	98.61%
OAEM	—	—	OAEM	0.50	0.61
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	0.69	0.78
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>Total loans:</b>		
Acceptable	100.00%	100.00%	Acceptable	97.81%	97.20%
OAEM	—	—	OAEM	1.57	1.93
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	0.62	0.87
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>

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	\$ 5,069	\$ 737	\$ 5,806	\$ 2,342,120	\$ 2,347,926
Production and intermediate-term	691	344	1,035	467,144	468,179
Loans to cooperatives	—	—	—	12,575	12,575
Processing and marketing	—	—	—	82,167	82,167
Farm-related business	—	—	—	29,944	29,944
Communication	—	—	—	7,723	7,723
Rural residential real estate	134	—	134	19,212	19,346
Total	\$ 5,894	\$ 1,081	\$ 6,975	\$ 2,960,885	\$ 2,967,860

	December 31, 2021				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 4,503	\$ 1,180	\$ 5,683	\$ 2,232,528	\$ 2,238,211
Production and intermediate-term	662	81	743	414,271	415,014
Loans to cooperatives	—	—	—	8,557	8,557
Processing and marketing	—	—	—	83,941	83,941
Farm-related business	—	—	—	24,249	24,249
Communication	—	—	—	6,255	6,255
Rural residential real estate	41	—	41	17,658	17,699
Total	\$ 5,206	\$ 1,261	\$ 6,467	\$ 2,787,459	\$ 2,793,926

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
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 1,018	\$ 949
Production and intermediate-term	712	922
Total	<u>\$ 1,730</u>	<u>\$ 1,871</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 1,060	\$ 1,081
Production and intermediate-term	294	375
Total	<u>\$ 1,354</u>	<u>\$ 1,456</u>
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ –	\$ 404
Total	<u>\$ –</u>	<u>\$ 404</u>
Total nonperforming loans	\$ 3,084	\$ 3,731
Other property owned	35	406
Total nonperforming assets	<u>\$ 3,119</u>	<u>\$ 4,137</u>
Nonaccrual loans as a percentage of total loans	0.06%	0.07%
Nonperforming assets as a percentage of total loans and other property owned	0.11%	0.15%
Nonperforming assets as a percentage of capital	<u>0.55%</u>	<u>0.78%</u>

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
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 611	\$ 960
Past due	1,119	911
Total	<u>\$ 1,730</u>	<u>\$ 1,871</u>
<b>Impaired accrual loans:</b>		
Restructured	\$ 1,354	\$ 1,456
90 days or more past due	–	404
Total	<u>\$ 1,354</u>	<u>\$ 1,860</u>
Total impaired loans	<u>\$ 3,084</u>	<u>\$ 3,731</u>
Additional commitments to lend	<u>\$ –</u>	<u>\$ –</u>

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
<b>Impaired loans:</b>							
<b>With a related allowance for credit losses:</b>							
Production and intermediate-term	\$ 95	\$ 94	\$ 40	\$ 95	\$ 1	\$ 98	\$ 1
Total	<u>\$ 95</u>	<u>\$ 94</u>	<u>\$ 40</u>	<u>\$ 95</u>	<u>\$ 1</u>	<u>\$ 98</u>	<u>\$ 1</u>
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 2,078	\$ 3,965	\$ –	\$ 2,072	\$ 15	\$ 2,133	\$ 32
Production and intermediate-term	911	2,448	–	909	6	935	15
Total	<u>\$ 2,989</u>	<u>\$ 6,413</u>	<u>\$ –</u>	<u>\$ 2,981</u>	<u>\$ 21</u>	<u>\$ 3,068</u>	<u>\$ 47</u>
<b>Total impaired loans:</b>							
Real estate mortgage	\$ 2,078	\$ 3,965	\$ –	\$ 2,072	\$ 15	\$ 2,133	\$ 32
Production and intermediate-term	1,006	2,542	40	1,004	7	1,033	16
Total	<u>\$ 3,084</u>	<u>\$ 6,507</u>	<u>\$ 40</u>	<u>\$ 3,076</u>	<u>\$ 22</u>	<u>\$ 3,166</u>	<u>\$ 48</u>

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
<b>With a related allowance for credit losses:</b>					
Production and intermediate-term	\$ 41	\$ 44	\$ 41	\$ 45	\$ 6
Total	\$ 41	\$ 44	\$ 41	\$ 45	\$ 6
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 2,434	\$ 4,227	\$ –	\$ 2,662	\$ 335
Production and intermediate-term	1,256	2,874	–	1,373	173
Total	\$ 3,690	\$ 7,101	\$ –	\$ 4,035	\$ 508
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 2,434	\$ 4,227	\$ –	\$ 2,662	\$ 335
Production and intermediate-term	1,297	2,918	41	1,418	179
Total	\$ 3,731	\$ 7,145	\$ 41	\$ 4,080	\$ 514

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

	Production and Intermediate-term		Agribusiness*	Communication	Rural Residential Real Estate		Total
	Real Estate Mortgage	Intermediate-term			Real Estate	Real Estate	
<b>Activity related to the allowance for credit losses:</b>							
Balance at March 31, 2022	\$ 15,807	\$ 3,244	\$ 789	\$ 49	\$ 127	\$ 20,016	
Charge-offs	–	–	–	–	–	–	
Recoveries	–	3	–	–	–	3	
Provision for loan losses	(319)	1,179	(101)	(7)	(2)	750	
Balance at June 30, 2022	\$ 15,488	\$ 4,426	\$ 688	\$ 42	\$ 125	\$ 20,769	
Balance at December 31, 2021	\$ 15,138	\$ 3,650	\$ 719	\$ 38	\$ 119	\$ 19,664	
Charge-offs	–	–	–	–	–	–	
Recoveries	–	105	–	–	–	105	
Provision for loan losses	350	671	(31)	4	6	1,000	
Balance at June 30, 2022	\$ 15,488	\$ 4,426	\$ 688	\$ 42	\$ 125	\$ 20,769	
Balance at March 31, 2021	\$ 13,378	\$ 3,387	\$ 634	\$ 17	\$ 105	\$ 17,521	
Charge-offs	(474)	–	–	–	–	(474)	
Recoveries	4	–	–	–	–	4	
Provision for loan losses	492	654	92	(1)	3	1,240	
Balance at June 30, 2021	\$ 13,400	\$ 4,041	\$ 726	\$ 16	\$ 108	\$ 18,291	
Balance at December 31, 2020	\$ 13,028	\$ 3,727	\$ 662	\$ 17	\$ 97	\$ 17,531	
Charge-offs	(474)	(10)	–	–	–	(484)	
Recoveries	4	–	–	–	–	4	
Provision for loan losses	842	324	64	(1)	11	1,240	
Balance at June 30, 2021	\$ 13,400	\$ 4,041	\$ 726	\$ 16	\$ 108	\$ 18,291	
<b>Allowance on loans evaluated for impairment:</b>							
Individually	\$ –	\$ 40	\$ –	\$ –	\$ –	\$ 40	
Collectively	15,488	4,386	688	42	125	20,729	
Balance at June 30, 2022	\$ 15,488	\$ 4,426	\$ 688	\$ 42	\$ 125	\$ 20,769	
Individually	\$ –	\$ 41	\$ –	\$ –	\$ –	\$ 41	
Collectively	15,138	3,609	719	38	119	19,623	
Balance at December 31, 2021	\$ 15,138	\$ 3,650	\$ 719	\$ 38	\$ 119	\$ 19,664	
<b>Recorded investment in loans evaluated for impairment:</b>							
Individually	\$ 2,078	\$ 1,006	\$ –	\$ –	\$ –	\$ 3,084	
Collectively	2,345,848	467,173	124,686	7,723	19,346	2,964,776	
Balance at June 30, 2022	\$ 2,347,926	\$ 468,179	\$ 124,686	\$ 7,723	\$ 19,346	\$ 2,967,860	
Individually	\$ 2,434	\$ 1,297	\$ –	\$ –	\$ –	\$ 3,731	
Collectively	2,235,777	413,717	116,747	6,255	17,699	2,790,195	
Balance at December 31, 2021	\$ 2,238,211	\$ 415,014	\$ 116,747	\$ 6,255	\$ 17,699	\$ 2,793,926	

\*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	\$ 1,087	\$ 1,113	\$ 27	\$ 31
Production and intermediate-term	505	592	211	217
Total loans	\$ 1,592	\$ 1,705	\$ 238	\$ 248
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 8.77 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 \$1,501 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*

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (15,176)	\$ (29,786)	\$ (15,257)	\$ (30,390)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	82	605	163	1,209
Net current period other comprehensive income	82	605	163	1,209
Balance at end of period	\$ (15,094)	\$ (29,181)	\$ (15,094)	\$ (29,181)

	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	2021	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	\$ (82)	\$ (605)	\$ (163)	\$ (1,209)	See Note 7.
Net amounts reclassified	\$ (82)	\$ (605)	\$ (163)	\$ (1,209)	

(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
<b>Recurring Measurements</b>					
<b>Assets:</b>					
Recurring Assets	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Liabilities:</b>					
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ 55	\$ —	\$ —	\$ 55	\$ 55
Other property owned	35	—	—	39	39
Nonrecurring Assets	\$ 90	\$ —	\$ —	\$ 94	\$ 94
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
Cash	\$ 41	\$ 41	\$ —	\$ —	\$ 41
Loans	2,924,636	—	—	2,725,336	2,725,336
Other Financial Assets	\$ 2,924,677	\$ 41	\$ —	\$ 2,725,336	\$ 2,725,377
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 2,437,577	\$ —	\$ —	\$ 2,297,383	\$ 2,297,383
Other Financial Liabilities	\$ 2,437,577	\$ —	\$ —	\$ 2,297,383	\$ 2,297,383



December 31, 2021

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>					
<b>Assets:</b>					
Recurring Assets	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Liabilities:</b>					
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ —	\$ —	\$ —	\$ —	\$ —
Other property owned	406	—	—	448	448
Nonrecurring Assets	\$ 406	\$ —	\$ —	\$ 448	\$ 448
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
Cash	\$ 206	\$ 206	\$ —	\$ —	\$ 206
Loans	2,753,519	—	—	2,697,883	2,697,883
Other Financial Assets	\$ 2,753,725	\$ 206	\$ —	\$ 2,697,883	\$ 2,698,089
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 2,293,490	\$ —	\$ —	\$ 2,266,002	\$ 2,266,002
Other Financial Liabilities	\$ 2,293,490	\$ —	\$ —	\$ 2,266,002	\$ 2,266,002

### **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

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**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	\$ (293)	\$ 428	\$ (586)	\$ 855
401(k)	285	257	617	555
Other postretirement benefits	231	176	399	356
Total	<u>\$ 223</u>	<u>\$ 861</u>	<u>\$ 430</u>	<u>\$ 1,766</u>

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 — Subsequent Events**

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