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*River Valley AgCredit, ACA*

# FIRST QUARTER 2022

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## CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2022 quarterly report of River Valley AgCredit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

/s/ Kyle M. Yancey  
Chief Executive Officer  
of River Valley AgCredit, ACA

/s/ David L. Richesin  
Chairman of the Board  
of River Valley AgCredit, ACA

/s/ Beth Barkley  
Chief Financial Officer  
of River Valley AgCredit, ACA

/s/ Tiffany Myers  
Member of the Board of Directors  
Chair of the Audit Committee  
of River Valley AgCredit, ACA

May 9, 2022

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*River Valley AgCredit, 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 March 31, 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 March 31, 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 March 31, 2022.

/s/ Kyle M. Yancey  
Chief Executive Officer  
of River Valley AgCredit, ACA

/s/ Beth Barkley  
Chief Financial Officer  
of River Valley AgCredit, ACA

May 9, 2022

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

## FINANCIAL CONDITION

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of River Valley AgCredit, ACA (Association) for the period ended March 31, 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. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## COVID-19 OVERVIEW

The COVID-19 pandemic has disrupted businesses and the global economy since March 2020. Significant progress was made during 2021 in mitigating the spread of COVID-19 resulting in improving macroeconomic conditions. However, that improvement was hampered by rising inflation, supply chain disruptions and labor shortages in the United States and globally.

The priority during the pandemic was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. The Association returned to pre-pandemic working conditions in February 2021 and has been fully staffed with all branches open and operational since that time.

## FUTURE OF LIBOR

In 2017, the United Kingdom's Financial Conduct Authority (UK FCA), which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021.

On March 5, 2021, ICE Benchmark Administration (IBA) (the entity that is responsible for calculating LIBOR) announced its intention to cease the publication of the one-week and two-month US dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining US dollar LIBOR settings immediately following the LIBOR publication on June 30, 2023. On the same day, the UK FCA announced that the IBA had notified the UK FCA of its intent, among other things, to cease providing certain US dollar LIBOR settings as of June 30, 2023. In its announcement, the UK FCA

confirmed that all 35 LIBOR tenors (including with respect to US dollar LIBOR) will be discontinued or declared nonrepresentative as of either: (a) immediately after December 31, 2021 or (b) immediately after June 30, 2023.

The Association has exposure to LIBOR arising from loans made to customers, Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf, and preferred stock issued by the Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

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.

On December 8, 2021, the FCA issued another informational memorandum to provide additional guidance to Farm Credit System institutions on their transition away from LIBOR. The guidance encourages Farm Credit System institutions to stop entering into new contracts that reference LIBOR as soon as practicable and in any event no later than December 31, 2021. Entering into new LIBOR-referenced contracts after that date would present safety and soundness risk. The guidance also provides clarity on what the FCA considers a new LIBOR-indexed contract; whether purchases of legacy LIBOR-indexed loans and investments are deemed new contracts; limited exceptions for entering into new LIBOR contracts that reduce or hedge risk in legacy LIBOR contracts; and the due diligence and other procedures required before using other benchmark/reference rate alternatives to LIBOR (beyond SOFR), including credit-sensitive alternative 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.

On July 26, 2021, the Alternative Reference Rates Committee (ARRC) announced it will recommend the CME Group's forward-looking SOFR term rates. The ARRC's formal recommendation of SOFR term rates is a major milestone and is

expected to increase the volume of transactions quoted in SOFR, supporting the implementation of the transition away from LIBOR.

On October 20, 2021, the U.S. prudential regulators issued a joint statement emphasizing the expectation that supervised institutions with LIBOR exposure continue to progress toward an orderly transition away from LIBOR, reiterating that supervised institutions should, with limited exceptions, cease entering into new contracts that use US dollar LIBOR as a reference rate as soon as practicable, but no later than December 31, 2021. They further stated that entering into new contracts, including derivatives, after that date would create safety and soundness risks. The joint statement clarified that entering into such new contracts would include an agreement that (1) creates additional LIBOR disclosure or (2) extends the term of an existing LIBOR contract, but that a draw on an existing agreement that is legally enforceable, e.g., a committed credit facility, would not be a new contract. The joint statement also provided considerations when assessing the appropriateness of alternative reference rates used in lieu of LIBOR and the regulator expectation that new or updated LIBOR contracts include strong and clearly defined fallback rates for when the initial reference rate is discontinued.

The following is a summary of outstanding variable-rate financial instruments tied to LIBOR at March 31, 2022:

<i>(dollars in millions)</i>	Due in 2022	Due in 2023 (On or Before June 30)	Due after June 30, 2023	Total
Loans	\$ 185.0	\$ —	\$ 5,427.7	\$ 5,612.70
Total	\$ 185.0	\$ —	\$ 5,427.7	\$ 5,612.70
Direct Note	\$ 143.1	\$ —	\$ 4,197.7	4,340.8
Difference	\$ 41.9	\$ —	\$ 1,230.0	\$ 1,271.9

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after June 30, 2023 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. At March 31, 2022, 0 percent of total loans maturing after June 30, 2023 do not contain fallback provisions.

## 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 corn, soybeans, poultry, and tobacco. 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.

The gross loan volume of the Association as of March 31, 2022, was \$541,019 as compared to \$549,712 at December 31, 2021, a decrease of \$8,693. Net loans outstanding at March 31, 2022, were \$534,129 as compared to \$542,786 at December 31, 2021. Net loans accounted for 96.55 percent of total assets at March 31, 2022, as compared to 95.03 percent of total assets at December 31, 2021. The decrease in gross and net loan volume during the reporting period is primarily attributable to improving ag economy and working capital of our members.

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 decreased from \$7,270 at December 31, 2021, to \$6,898 at March 31, 2022. This decrease is primarily the result of normal nonaccrual collections.

Other property owned (OPO) consists primarily of assets once held as loan collateral that were acquired through foreclosure or deeded to the Association (or a lender group) in satisfaction of secured loans. Traditionally, OPO is primarily in the form of real estate. However, it can also include equipment and equity interests in companies or partnerships. The Association held \$0 in OPO as of March 31, 2022, which was no change from December 31, 2021.

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 March 31, 2022, was \$6,890 compared to \$6,926 at December 31, 2021, and was considered by management to be adequate to cover probable losses.

## RESULTS OF OPERATIONS

### *For the three months ended March 31, 2022*

Net income for the three months ended March 31, 2022, totaled \$2,252 as compared to \$2,275 for the same period in 2021, a decrease of \$23. Net interest income increased \$342 for the three months ended March 31, 2022, as compared to the same period in 2021. This increase is attributed primarily to collections on nonaccrual accounts.

Noninterest income for the three months ended March 31, 2022, totaled \$1,170 as compared to \$1,443 for the same period in 2021, a decrease of \$273. This is attributed to decreases of \$332 in fee income and \$12 in financially related services. These were offset by increases of \$42 in patronage refunds from other farm credit institutions and \$29 in gains on sale of rural home loans in Farm Credit System.

Noninterest expense for the three months ended March 31, 2022, totaled \$3,066 as compared to \$3,014 for the same period in 2021, an increase of \$52. This increase in expense is attributed to a \$141 increase in other operating expenses, \$31 increase in

salary and employee benefits, a \$3 increase in gains on OPO, \$1 increase in insurance premiums and a \$1 increase in data processing. These were offset by a \$117 decrease in purchased services and an \$8 decrease in occupancy and equipment.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2022, was \$423,942 compared to \$443,283 at December 31, 2021.

## CAPITAL RESOURCES

Total members' equity at March 31, 2022, increased to \$111,148 from the December 31, 2021, total of \$109,194. The increase is primarily attributed to earnings retained. Total capital stock and participation certificates were \$4,843 on March 31, 2022, compared to \$4,831 on December 31, 2021.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets are the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios.

The following sets forth the regulatory capital ratios, which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2022
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.500%	7.00%	19.12%
Tier 1 Capital	6.0%	2.500%	8.50%	19.12%
Total Capital	8.0%	2.500%	10.50%	20.65%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.94%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	18.52%
UREE Leverage Ratio	1.5%	0.0%	1.5%	18.16%

\* - The capital conservation buffers had a 3 year phase-in period and became fully effective January 1, 2020.

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

## REGULATORY MATTERS

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

regulation does not include an exclusion for the CECL day 1 cumulative effective adjustment from the "safe harbor" deemed prior approval provision. The final rule is effective on January 1, 2023.

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

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## 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 issued accounting pronouncements. Additional information is provided in the table below.

The following ASU was issued by the Financial Accounting Standards Board (FASB):

Summary of Guidance	Adoption and Potential Financial Statement Impact
<b><i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i></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>

**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling (270) 247-5613, ext. 2020, writing Beth Barkley, Chief Financial Officer, River Valley AgCredit, ACA, P.O. Box 309, Mayfield, KY 42066, or accessing the website, [www.rivervalleyagcredit.com](http://www.rivervalleyagcredit.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# River Valley AgCredit, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2022 <i>(unaudited)</i>	December 31, 2021 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 348	\$ 1,969
Loans	541,019	549,712
Allowance for loan losses	(6,890)	(6,926)
Net loans	534,129	542,786
Accrued interest receivable	5,586	5,280
Equity investments in other Farm Credit institutions	5,427	5,379
Premises and equipment, net	6,681	6,016
Accounts receivable	810	9,481
Other assets	247	240
Total assets	\$ 553,228	\$ 571,151
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 423,942	\$ 443,283
Accrued interest payable	799	812
Patronage refunds payable	867	6,391
Accounts payable	348	726
Advanced conditional payments	8,061	4,068
Other liabilities	8,063	6,677
Total liabilities	442,080	461,957
Commitments and contingencies (Note 7)		
<b>Members' Equity</b>		
Capital stock and participation certificates	4,843	4,831
Additional paid-in-capital	15,817	15,817
Retained earnings		
Allocated	51,294	49,474
Unallocated	39,194	39,072
Total members' equity	111,148	109,194
Total liabilities and members' equity	\$ 553,228	\$ 571,151

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

River Valley AgCredit, ACA

# Consolidated Statements of Comprehensive Income

(unaudited)

	For the Three Months Ended March 31,	
	2022	2021
<i>(dollars in thousands)</i>		
<b>Interest Income</b>		
Loans	\$ 6,412	\$ 6,117
Other	2	9
Total interest income	6,414	6,126
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	2,314	2,373
Other	26	21
Total interest expense	2,340	2,394
Net interest income	4,074	3,732
Provision for (reversal of) allowance for loan losses	(46)	(85)
Net interest income after provision for (reversal of) allowance for loan losses	4,120	3,817
<b>Noninterest Income</b>		
Loan fees	147	479
Fees for financially related services	18	30
Patronage refunds from other Farm Credit institutions	865	823
Gains (losses) on sales of rural home loans, net	139	110
Other noninterest income	1	1
Total noninterest income	1,170	1,443
<b>Noninterest Expense</b>		
Salaries and employee benefits	2,105	2,074
Occupancy and equipment	151	159
Insurance Fund premiums	145	144
Purchased services	104	221
Data processing	55	54
Other operating expenses	505	364
(Gains) losses on other property owned, net	1	(2)
Total noninterest expense	3,066	3,014
Income before income taxes	2,224	2,246
Provision (benefit) for income taxes	(28)	(29)
<b>Net income</b>	\$ 2,252	\$ 2,275
Other comprehensive income	—	—
<b>Comprehensive income</b>	\$ 2,252	\$ 2,275

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



# River Valley AgCredit, ACA

## Consolidated Statements of Changes in Members' Equity

(unaudited)

	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Total Members' Equity
<i>(dollars in thousands)</i>			Allocated	Unallocated	
Balance at December 31, 2020	\$ 4,726	\$ 15,817	\$ 46,708	\$ 36,656	\$ 103,907
Comprehensive income				2,275	2,275
Capital stock/participation certificates issued/(retired), net	55				55
Patronage distribution adjustment			1,520	(1,552)	(32)
Balance at March 31, 2021	\$ 4,781	\$ 15,817	\$ 48,228	\$ 37,379	\$ 106,205
<b>Balance at December 31, 2021</b>	<b>\$ 4,831</b>	<b>\$ 15,817</b>	<b>\$ 49,474</b>	<b>\$ 39,072</b>	<b>\$ 109,194</b>
<b>Comprehensive income</b>				<b>2,252</b>	<b>2,252</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>12</b>				<b>12</b>
<b>Patronage distribution adjustment</b>			<b>1,820</b>	<b>(2,130)</b>	<b>(310)</b>
<b>Balance at March 31, 2022</b>	<b>\$ 4,843</b>	<b>\$ 15,817</b>	<b>\$ 51,294</b>	<b>\$ 39,194</b>	<b>\$ 111,148</b>

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

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## River Valley AgCredit, 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 River Valley AgCredit, 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 5, *Fair Value Measurement*). Actual results could differ from those estimates.

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

#### Accounting Standards Updates (ASUs) Issued During the Period and Applicable to the Association

The following ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent year-end:

- In March 2022, the FASB issued ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. This Update responds to feedback received during the Post Implementation Review process conducted by the FASB related to Topic 326.
  1. Troubled Debt Restructurings (TDRs) by Creditors  
The amendments eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan.
  2. Vintage Disclosures—Gross Writeoffs  
For public business entities, the amendments in this Update require that an entity disclose current period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, *Financial Instruments—Credit Losses—Measured at Amortized Cost*.

These amendments will be implemented in conjunction with the adoption of ASU 2016-13.

#### ASUs Pending Effective Date

For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date through the life of the financial instrument. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

#### **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:

	March 31, 2022	December 31, 2021
Real estate mortgage	\$ 303,008	\$ 298,877
Production and intermediate-term	160,322	188,057
Loans to cooperatives	675	679
Processing and marketing	11,370	4,189
Farm-related business	23,681	13,863
Rural residential real estate	20,235	20,142
Other (including Mission Related)	21,728	23,905
Total loans	\$ 541,019	\$ 549,712

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:

	March 31, 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	\$ 2,238	\$ 4,486	\$ —	\$ —	\$ —	\$ 3,548	\$ 2,238	\$ 8,034
Production and intermediate-term	3,682	(2)	268	—	—	2,379	3,950	2,377
Loans to cooperatives	677	—	—	—	—	—	677	—
Processing and marketing	2,713	8,442	—	—	—	—	2,713	8,442
Other (including Mission Related)	—	—	—	—	21,083	—	21,083	—
Total	\$ 9,310	\$ 12,926	\$ 268	\$ —	\$ 21,083	\$ 5,927	\$ 30,661	\$ 18,853

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	\$ 2,614	\$ 4,486	\$ —	\$ —	\$ —	\$ 3,409	\$ 2,614	\$ 7,895
Production and intermediate-term	4,006	(2)	284	—	—	2,522	4,290	2,520
Loans to cooperatives	680	—	—	—	—	—	680	—
Processing and marketing	3,230	8,442	—	—	—	—	3,230	8,442
Other (including Mission Related)	—	—	—	—	23,100	—	23,100	—
Total	\$ 10,530	\$ 12,926	\$ 284	\$ —	\$ 23,100	\$ 5,931	\$ 33,914	\$ 18,857

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:

	March 31, 2022	December 31, 2021		March 31, 2022	December 31, 2021
<b>Real estate mortgage:</b>			<b>Farm-related business:</b>		
Acceptable	93.46%	93.38%	Acceptable	90.50%	83.70%
OAEM	4.97	4.94	OAEM	4.16	7.12
Substandard/doubtful/loss	1.57	1.68	Substandard/doubtful/loss	5.34	9.18
	100.00%	100.00%		100.00%	100.00%
<b>Production and intermediate-term:</b>			<b>Rural residential real estate:</b>		
Acceptable	92.30%	92.49%	Acceptable	98.37%	98.54%
OAEM	3.66	3.76	OAEM	1.04	1.04
Substandard/doubtful/loss	4.04	3.75	Substandard/doubtful/loss	0.59	0.42
	100.00%	100.00%		100.00%	100.00%
<b>Loans to cooperatives:</b>			<b>Other (including Mission Related):</b>		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
<b>Processing and marketing:</b>			<b>Total loans:</b>		
Acceptable	96.69%	90.21%	Acceptable	93.51%	93.29%
OAEM	—	—	OAEM	4.08	4.19
Substandard/doubtful/loss	3.31	9.79	Substandard/doubtful/loss	2.41	2.52
	100.00%	100.00%		100.00%	100.00%

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

March 31, 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	\$ 486	\$ 1,703	\$ 2,189	\$ 303,869	\$ 306,058	
Production and intermediate-term	71	3,591	3,662	158,624	162,286	
Loans to cooperatives	—	—	—	675	675	
Processing and marketing	—	—	—	11,376	11,376	
Farm-related business	110	982	1,092	22,817	23,909	
Rural residential real estate	251	—	251	20,068	20,319	
Other (including Mission Related)	895	1,387	2,282	19,700	21,982	
Total	\$ 1,813	\$ 7,663	\$ 9,476	\$ 537,129	\$ 546,605	

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	\$ 1,034	\$ 1,982	\$ 3,016	\$ 298,415	\$ 301,431	
Production and intermediate-term	737	2,999	3,736	186,566	190,302	
Loans to cooperatives	—	—	—	679	679	
Processing and marketing	—	—	—	4,193	4,193	
Farm-related business	—	982	982	13,076	14,058	
Rural residential real estate	89	—	89	20,112	20,201	
Other (including Mission Related)	1,144	458	1,602	22,526	24,128	
Total	\$ 3,004	\$ 6,421	\$ 9,425	\$ 545,567	\$ 554,992	

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

	March 31, 2022	December 31, 2021
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 1,984	\$ 2,268
Production and intermediate-term	3,742	3,830
Farm-related business	1,168	1,168
Rural residential real estate	4	4
Total	\$ 6,898	\$ 7,270
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 3,819	\$ 3,828
Production and intermediate-term	—	173
Rural residential real estate	9	10
Total	\$ 3,828	\$ 4,011
<b>Accruing loans 90 days or more past due:</b>		
Other (including Mission Related)	\$ 1,388	\$ 458
Total	\$ 1,388	\$ 458
Total nonperforming loans	\$ 12,114	\$ 11,739
Other property owned	—	—
Total nonperforming assets	\$ 12,114	\$ 11,739
Nonaccrual loans as a percentage of total loans	1.27%	1.32%
Nonperforming assets as a percentage of total loans and other property owned	2.24%	2.14%
Nonperforming assets as a percentage of capital	10.90%	10.75%

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.

	March 31, 2022	December 31, 2021
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 623	\$ 704
Past due	6,275	6,566
Total	\$ 6,898	\$ 7,270
<b>Impaired accrual loans:</b>		
Restructured	\$ 3,828	\$ 4,011
90 days or more past due	1,388	458
Total	\$ 5,216	\$ 4,469
Total impaired loans	\$ 12,114	\$ 11,739
Additional commitments to lend	\$ —	\$ 83

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

	March 31, 2022			Three Months Ended March 31, 2022		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	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	\$ 2,000	\$ 2,004	\$ 832	\$ 1,988	\$ 78	
Total	\$ 2,000	\$ 2,004	\$ 832	\$ 1,988	\$ 78	
<b>With no related allowance for credit losses:</b>						
Real estate mortgage	\$ 5,803	\$ 6,383	\$ —	\$ 5,765	\$ 227	
Production and intermediate-term	1,742	2,166	—	1,731	68	
Farm-related business	1,168	1,168	—	1,161	46	
Rural residential real estate	13	14	—	13	1	
Other (including Mission Related)	1,388	1,337	—	1,379	54	
Total	\$ 10,114	\$ 11,068	\$ —	\$ 10,049	\$ 396	
<b>Total impaired loans:</b>						
Real estate mortgage	\$ 5,803	\$ 6,383	\$ —	\$ 5,765	\$ 227	
Production and intermediate-term	3,742	4,170	832	3,719	146	
Farm-related business	1,168	1,168	—	1,161	46	
Rural residential real estate	13	14	—	13	1	
Other (including Mission Related)	1,388	1,337	—	1,379	54	
Total	\$ 12,114	\$ 13,072	\$ 832	\$ 12,037	\$ 474	

	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>Impaired loans:</b>					
<b>With a related allowance for credit losses:</b>					
Production and intermediate-term	\$ 2,105	\$ 2,116	\$ 869	\$ 1,983	\$ 68
Total	\$ 2,105	\$ 2,116	\$ 869	\$ 1,983	\$ 68
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 6,096	\$ 6,694	\$ —	\$ 5,743	\$ 197
Production and intermediate-term	1,898	2,300	—	1,789	61
Farm-related business	1,168	1,168	—	1,100	38
Rural residential real estate	14	14	—	14	—
Other (including Mission Related)	458	437	—	432	15
Total	\$ 9,634	\$ 10,613	\$ —	\$ 9,078	\$ 311
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 6,096	\$ 6,694	\$ —	\$ 5,743	\$ 197
Production and intermediate-term	4,003	4,416	869	3,772	129
Farm-related business	1,168	1,168	—	1,100	38
Rural residential real estate	14	14	—	14	—
Other (including Mission Related)	458	437	—	432	15
Total	\$ 11,739	\$ 12,729	\$ 869	\$ 11,061	\$ 379

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*	Rural Residential Real Estate	Other (including Mission Related)	Total
<b>Activity related to the allowance for credit losses:</b>						
Balance at December 31, 2021	\$ 2,876	\$ 3,665	\$ 245	\$ 140	\$ —	\$ 6,926
Charge-offs	(1)	—	—	—	—	(1)
Recoveries	3	8	—	—	—	11
Provision for loan losses	(2)	(44)	—	—	—	(46)
Balance at March 31, 2022	\$ 2,876	\$ 3,629	\$ 245	\$ 140	\$ —	\$ 6,890
Balance at December 31, 2020	\$ 3,036	\$ 3,531	\$ 297	\$ 129	\$ —	\$ 6,993
Charge-offs	—	(2)	—	—	—	(2)
Recoveries	12	85	—	3	—	100
Provision for loan losses	(16)	(178)	111	(2)	—	(85)
Balance at March 31, 2021	\$ 3,032	\$ 3,436	\$ 408	\$ 130	\$ —	\$ 7,006
<b>Allowance on loans evaluated for impairment:</b>						
Individually	\$ —	\$ 832	\$ —	\$ —	\$ —	\$ 832
Collectively	2,876	2,797	245	140	—	6,058
PCI**	—	—	—	—	—	—
Balance at March 31, 2022	\$ 2,876	\$ 3,629	\$ 245	\$ 140	\$ —	\$ 6,890
Individually	\$ —	\$ 869	\$ —	\$ —	\$ —	\$ 869
Collectively	2,876	2,796	245	140	—	6,057
PCI**	—	—	—	—	—	—
Balance at December 31, 2021	\$ 2,876	\$ 3,665	\$ 245	\$ 140	\$ —	\$ 6,926
<b>Recorded investment in loans evaluated for impairment:</b>						
Individually	\$ 5,803	\$ 3,742	\$ 1,168	\$ 13	\$ 1,388	\$ 12,114
Collectively	300,255	158,544	34,792	20,306	20,594	534,491
PCI**	—	—	—	—	—	—
Balance at March 31, 2022	\$ 306,058	\$ 162,286	\$ 35,960	\$ 20,319	\$ 21,982	\$ 546,605
Individually	\$ 6,096	\$ 4,003	\$ 1,168	\$ 14	\$ 458	\$ 11,739
Collectively	295,335	186,299	17,762	20,187	23,670	543,253
PCI**	—	—	—	—	—	—
Balance at December 31, 2021	\$ 301,431	\$ 190,302	\$ 18,930	\$ 20,201	\$ 24,128	\$ 554,992

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

\*\*Purchased credit impaired loans.

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 month periods ended March 31, 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 period. 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	
	March 31, 2022	December 31, 2021	March 31, 2022	December 31, 2021
Real estate mortgage	\$ 4,025	\$ 4,046	\$ 206	\$ 218
Production and intermediate-term	634	805	634	632
Rural residential real estate	9	10	—	—
Total loans	\$ 4,668	\$ 4,861	\$ 840	\$ 850
Additional commitments to lend	\$ —	\$ 83		

## Purchased Credit Impaired (PCI) Loans

For further discussion of the Association's accounting for PCI loans, see Note 2, *Summary of Significant Accounting Policies*, from the Association's most recent Annual Report. At March 31, 2022 and December 31, 2021, there was no remaining balance or allowance for loan losses included in the balance sheet for these loans which were acquired in a 2012 business combination.

## 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 1.92 percent of the issued stock of the Bank as of March 31, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled \$39.1 billion and shareholders' equity totaled \$2.0 billion. The Bank's earnings were \$113 million for the first three months of 2022. In addition, the Association held investments of \$509 related to other Farm Credit institutions.

## Note 4 — Debt

### *Notes Payable to AgFirst Farm Credit Bank*

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association

performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

## Note 5 — Fair Value Measurement

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

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

The classifications of the Association's financial instruments 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.

		March 31, 2022				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b><u>Recurring Measurements</u></b>						
<b>Assets:</b>						
Recurring Assets		\$ —	\$ —	\$ —	\$ —	\$ —
<b>Liabilities:</b>						
Recurring Liabilities		\$ —	\$ —	\$ —	\$ —	\$ —
<b><u>Nonrecurring Measurements</u></b>						
<b>Assets:</b>						
Impaired loans		\$ 1,168	\$ —	\$ —	\$ 1,168	\$ 1,168
Other property owned		—	—	—	—	—
Nonrecurring Assets		\$ 1,168	\$ —	\$ —	\$ 1,168	\$ 1,168
<b><u>Other Financial Instruments</u></b>						
<b>Assets:</b>						
Cash		\$ 348	\$ 348	\$ —	\$ —	\$ 348
Loans		532,961	—	—	510,053	510,053
Accrued interest receivable		5,586	—	5,586	—	5,586
Other Financial Assets		\$ 538,895	\$ 348	\$ 5,586	\$ 510,053	\$ 515,987
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank		\$ 423,942	\$ —	\$ —	\$ 405,778	\$ 405,778
Accrued interest payable		799	—	799	—	799
Other Financial Liabilities		\$ 424,741	\$ —	\$ 799	\$ 405,778	\$ 406,577

		December 31, 2021				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b><u>Recurring Measurements</u></b>						
<b>Assets:</b>						
Recurring Assets		\$ —	\$ —	\$ —	\$ —	\$ —
<b>Liabilities:</b>						
Recurring Liabilities		\$ —	\$ —	\$ —	\$ —	\$ —
<b><u>Nonrecurring Measurements</u></b>						
<b>Assets:</b>						
Impaired loans		\$ 1,236	\$ —	\$ —	\$ 1,236	\$ 1,236
Other property owned		—	—	—	—	—
Nonrecurring Assets		\$ 1,236	\$ —	\$ —	\$ 1,236	\$ 1,236
<b><u>Other Financial Instruments</u></b>						
<b>Assets:</b>						
Cash		\$ 1,969	\$ 1,969	\$ —	\$ —	\$ 1,969
Loans		541,550	—	—	534,910	534,910
Accrued interest receivable		5,280	—	5,280	—	5,280
Other Financial Assets		\$ 548,799	\$ 1,969	\$ 5,280	\$ 534,910	\$ 542,159
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank		\$ 443,283	\$ —	\$ —	\$ 437,785	\$ 437,785
Accrued interest payable		812	—	812	—	812
Other Financial Liabilities		\$ 444,095	\$ —	\$ 812	\$ 437,785	\$ 438,597

### ***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 in the tables that follow. 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 from 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**

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

#### **Note 6 — Employee Benefit Plans**

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

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Pension	\$ 194	\$ 222
401(k)	103	103
Other postretirement benefits	54	43
Total	<u>\$ 351</u>	<u>\$ 368</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 7 — Commitments and Contingent Liabilities**

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is remote 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 8 — Subsequent Events**

The Association evaluated subsequent events and determined there were none requiring disclosure through May 9, 2022, which was the date the financial statements were issued.