Puerto Rico Farm Credit, ACA

THIRD QUARTER 2022

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CERTIFICATION

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

Rafael J. Borges
Chairman of The Board of Directors

Ricardo L. Fernández
Chief Executive Officer

Antonio E. Marichal
Chairman of the Audit Committee

November 8, 2022

Puerto Rico Farm Credit, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2022. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of September 30, 2022, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2022.

Ricardo L. Fernández
Chief Executive Officer

November 8, 2022

Puerto Rico Farm Credit, ACA

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

(dollars in thousands)

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

The Association obtains funding through a borrowing relationship with AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected by the financial condition and results of operations of the Bank.

CLIMATE CHANGE

Agricultural production is and always has been vulnerable to weather events and climate change. The USDA has recognized that the changing climate presents threats to U.S. and global agricultural production and rural communities. The impact of climate change including its effect on weather is, and will continue to be, a challenge for agricultural producers. Among the risks of climate change are:

- rising average temperatures,
- more frequent and severe storms,
- more forest fires, and
- extremes in flooding and droughts.

However, risks associated with climate change are mitigated, to some degree, by agricultural producers' ability to navigate changing industry dynamics from numerous perspectives, including trade, government policy, consumer preferences and weather. Producers regularly adopt new technologies, agronomic practices and financial strategies in response to evolving trends to ensure their competitiveness.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing short and intermediate-term loans and long-term real estate mortgage loans. The Association also maintains a portfolio of purchased loans (PL), originated by other Farm Credit System entities and non-system entities. The Association's predominant chartered territory (CT) agricultural commodities were dairy, fruits (including plantains and coffee) and processing industries which totaled approximately $67,278 or 37.09 percent of the gross principal balance, net of sold loans, at September 30, 2022.

The island was hit by Hurricane Fiona, which made landfall on September 18th, causing flooding in many areas in the interior of the island and western parts of the island, mainly in the southwestern part. It also caused total loss of power, loss of communications and significant damage to the infrastructure in the areas already mentioned. Agricultural interests on the island have reported significant storm impacts across all sectors in the areas affected. Management has offered principal and interest payment deferments as part of the Hurricane Fiona Relief Program. Management is working to assess and quantify the financial impact this storm will have on customers and the Association. Minimal credit quality deterioration is expected and no credit losses should be incurred in the immediate future. Factors that are available for some of our customers, such as the use of loan guarantees, crop insurance, and federal disaster relief, will help to mitigate any potential losses associated with this storm event. The Association is well capitalized which allows it to withstand stress in the chartered territory loan portfolio.

The gross loan volume of the Association at September 30, 2022 was $180,338, an increase of $11,194 or 6.62 percent as compared to $169,144 at December 31, 2021. Loans originated within the Association's chartered territory were lower by approximately $3,287 and participation purchased loans increased by approximately $14,481. The loan volume increase was a result of new participation purchased loans along with disbursements on unfunded commitments during the quarter partially offset by the scheduled repayments.

Net loans at September 30, 2022 totaled $179,054 as compared to $167,951 at December 31, 2021. Net loans made up 96.64 percent of total assets at September 30, 2022, as compared to 95.51 percent at December 31, 2021.

Non-accrual loans totaled $6,307 or 3.50 percent of total loans at September 30, 2022, compared to $6,517 or 3.85 percent of total loans at December 31, 2021. Nonaccrual loans decreased $210 during 2022 primarily due to a CT nonaccrual loan's collateral property sale along with other scheduled repayments.

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The overall delinquency rate for the accruing loan portfolio slightly decreased during the third quarter 2022 mainly due to the principal and interest deferments granted as a result of the Hurricane Fiona Relief Program. Management does not expect high risk loans to increase significantly by the end of the year.

The allowance for loan losses increased $91 to $1,284 at September 30, 2022 from $1,193 at December 31, 2021. The increase was primarily due to increases in the specific and general reserves for CT impaired loans and the general reserve for the PL Other industries among others. Those increases were partially offset by decreases in the general reserves for the CT Dairy and PL Field Crops industries among others.

In addition to the impact of Hurricane Fiona, management will continue to monitor certain risks and other factors that may increase the risk of the portfolio, such as climate conditions, government fiscal policy and overall economic conditions on the island. The total allowance for loan losses to outstanding loan volume remains on 0.71 percent at September 30, 2022 as compared to December 31, 2021.

During 2022, charge-offs of $36 were recorded and recoveries of $39 were recognized on payments received for CT nonaccrual loans. The Association is actively marketing acquired properties and may incur additional accounting losses or gains as sales are completed.

Puerto Rico has endured a prolonged economic downturn for more than 16 years. GDP continues a downward trend that started in 2006 with a few upticks on years after unique events have led to federal funds to increase on the island. Since then, Puerto Rico's economy has struggled for multiple reasons, including the lack of a sustainable economic plan, natural disasters and the pandemic. This economic environment is expected to continue over the next 12 months with the added component of the war in Ukraine and the global supply chain disruption which could have an impact on farming operations on the island.

The Fiscal Planning Board continues to work on stabilizing the central government finances and settle the debt for the government-owned power company. The island began repaying certain debt but additional work is required through many of the government agencies.

Puerto Rico's economy will remain stable but fragile amidst the continuing impact of the pandemic, the war in Ukraine and the impact of Hurricane Fiona. The Association expects to continue to improve performance as interest in local agriculture slowly grows. The Board of Directors and Management will continue to work with the government and other entities in moving forward the island's agricultural sector. Economists continue to forecast a minor increase in GDP of 1% due to additional federal funds being received. The forecast over the next three years is for a stable economy which is good for the island as it continues to recover from the major events already discussed. The only impediment in maintaining economic stability is the risk of interest rates continuing to rise while inflation continues to soar to levels not seen in decades.

Through all this, the agricultural sector's outlook is stable and farmers will continue to fair well under the current market conditions. This should allow farmers to continue managing their operations profitably and maintain the credit quality of the Association's portfolio while limiting loan growth opportunities.

The local dairy industry production remained stable in 2022 compared to 2021. The Association continues to monitor events within the industry and their potential impact on the performance of the dairy portfolio. The Association lends almost 30.86% of total chartered territory loans to the dairy industry and has implemented risk management practices to mitigate concentration risk.

Other agricultural sectors do not represent significant risk for the association. Management monitors all sectors and does not anticipate any adverse impact to the portfolio in 2022.

The Association will continue to find creative ways to fulfill its public mission. Leadership of the ACA believes that agriculture is still viable on the island and has many opportunities ahead. However, the Board of Directors and Management remain cautious of the Association's ability to grow the portfolio under the prevailing economic and political environment.

RESULTS OF OPERATIONS

For the three months ended September 30, 2022

The Association recorded a net loss for the three months ended September 30, 2022 of $94 as compared to net income of $108 for the same period in 2021. This $202 decrease in net income is primarily attributed to a decrease in net interest income.

Net interest income was $831 for the three months ended September 30, 2022 compared to $1,092 for the same period in 2021, representing a decrease of $261 or 23.90 percent primarily resulting from interest payment deferrals offered in the Hurricane Fiona Relief Program.

Provision for loan losses was $62 for the three months ended September 30, 2022 compared to $274 for the same period in 2021. During the third quarter 2022, the provision for loan losses was mainly due to increases in specific and general reserves for impaired loans partially offset by decreases in the general reserves for the CT Dairy and PL Tree Fruits industries among others.

Noninterest income for the three months ended September 30, 2022 totaled $282 compared to $264 for the same period of 2021, resulting in an increase of $18 or 6.82 percent. This increase was mainly due to an increase in the patronage refunds from other Farm Credit institutions.

Noninterest expense was $1,145 for the three months ended September 30, 2022 as compared to $974 for the same period in 2021, resulting in an increase of $171 or 17.56 percent. This increase was primarily driven by increases of $51 in salaries and employee benefits, $62 in purchased services and $28 in other operating expenses among others.

For the nine months ended September 30, 2022

Net income for the nine months ended September 30, 2022 totaled $287 compared to $1,020 for the same period in 2021, a decrease of $733 or 71.86 percent. The decrease was mainly due to an increase in noninterest expense along with a decrease in net interest income.

Net interest income decreased $307 or 9.27 percent to $3,003 for the nine months ended September 30, 2022, from $3,310 for the same period in 2021. The decrease is mainly attributed to interest payment deferrals offered in the Hurricane Fiona Relief Program along with an increase in interest expense.

Provision for loan losses was $88 for the nine months ended September 30, 2022 compared to $203 for the same period in 2021, a decrease in expense of $115. The decrease in expense is mainly attributed to lower general reserves required for the CT dairy industry and CT collateral risk.

Noninterest income for the nine months ended September 30, 2022 totaled $832 as compared to $795 for the same period in 2021, an increase of $37 or 4.65 percent. The increase was mainly due to increases in patronage refunds from other Farm Credit institutions offset by increases in losses on other transactions.

Noninterest expense was $3,460 for the nine months ended September 30, 2022 as compared to $2,882 for the same period in 2021, an increase of $578 or 20.06 percent. The increase was primarily related to increases of $101 in purchased services, $211 in other operating expenses and $199 in losses on other property owned.

Although the Association is subject to federal income tax, the Association does not expect to incur a federal tax liability in 2022.

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses, and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate notes. The variable rate notes are utilized by the Association to fund variable rate loan advances and operating fund requirements. The fixed rate notes are used specifically to fund fixed rate loan advances made by the Association.

The total notes payable to the Bank at September 30, 2022 was $127,641 as compared to $116,482 at December 31, 2021. The increase of $11,159 or 9.58 percent is primarily due to an increase in loan volume outstanding during the period. The Association had no lines of credit outstanding with third parties as of September 30, 2022.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the Secured Overnight Financing Rate (SOFR). Fixed rate loans are priced based on the current cost of Farm Credit System debt of similar terms to maturity. The Association does not offer or include adjustable rate mortgages (ARMS) in its portfolio of loan products.

The majority of the interest rate risk in the Association balance sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control interest rate risk associated with the loan portfolio.

CAPITAL RESOURCES

Total members' equity at September 30, 2022 increased by $312 or 0.56 percent to $55,622 from December 31, 2021 total of $55,310. The increase was primarily attributable to year-to-date net income.

Total capital stock and participation certificates were $495 at September 30, 2022 compared to $470 at December 31, 2021. The increase of $25 was the result of the capital stock and participation certificates issued on new loans originated in the normal course of business.

Unallocated retained earnings were $55,127 at September 30, 2022 for an increase of $287 or 0.52 percent from December 31, 2021 when unallocated retained earnings totaled $54,840. The increase was due to 2022 year-to-date net income.

Key financial condition ratios were as follows:

	9/30/2022	12/31/2021
Total Members' Equity to Asset	30.02%	31.46%

Regulatory Capital Ratios

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

	Regulatory Minimum, Including Buffer*	9/30/2022	12/31/2021	9/30/2021
Common Equity Tier 1 (CET1) Capital Ratio	7.0%	30.88%	33.51%	33.74%
Tier 1 Capital Ratio	8.5%	30.88%	33.51%	33.74%
Total Regulatory Capital Ratio	10.5%	31.65%	34.67%	34.71%
Permanent Capital Ratio	7.0%	31.10%	33.88%	34.05%
Tier 1 Leverage Ratio**	5.0%	29.78%	32.24%	32.44%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.5%	29.51%	32.69%	32.90%

**Includes fully phased-in capital conservation buffers which became effective on January 1, 2020.*
*** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. The requirements are based on regulatory ratios as defined by the FCA and include common equity tier 1 (CET1), tier 1, total capital, permanent capital, tier 1 leverage, and unallocated retained earnings (URE) and URE equivalents leverage ratios.

The permanent capital, CET1, tier 1, and total capital ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by a risk-adjusted asset base. Unlike these ratios, the tier 1 leverage and URE and URE equivalents leverage ratios do not incorporate any risk-adjusted weighting of assets. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. The tier 1 leverage and URE and URE equivalents leverage ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions.

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. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

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.

LIBOR Transition

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

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

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

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

(dollars in thousands)	**Due in 2022**	**Due in 2023 (On or Before June 30 2023)**	**Due After June 30, 2023**	**Total**
Loans	$ –	$ 1,211	$ 29,006	$ 30,217
Total	$ –	$ 1,211	$ 29,006	$ 30,217
Note Payable to AgFirst Farm Credit Bank	$ –	$ 836	20,024	$ 20,860
Total	$ –	$ 836	$ 20,024	$ 20,860

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.

OTHER MATTERS

During 2021, the Association continued its service agreement with Farm Credit of Florida, ACA for a fee. The provided services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources and, loan on-boarding and servicing. On March 1, 2022, Farm Credit of Florida provided notice of non-renewal of the services agreement effective on the annual renewal date in September 2022. During the third quarter 2022, the parties agreed to extend the termination date to November 15, 2022. The Association is currently working on a transition plan for the provided services.

During October 2022, the Association sold various Other Property Owned properties with a total recorded investment of $916 and recorded gains on sale of $4,115 and write down recoveries of $719.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts, at the adoption date. • The guidance is expected to be adopted January 1, 2023.
ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures	
• This Update responds to feedback received during the Post Implementation Review process conducted by the FASB related to Topic 326. Troubled Debt Restructurings (TDRs) by Creditors • The amendments eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan. Vintage Disclosures—Gross Writeoffs • For public business entities, the amendments in this Update require that an entity disclose current period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.	• These amendments will be implemented in conjunction with the adoption of ASU 2016-13.
ASU 2022-03—Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions	
• This Update clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. It also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. • The guidance clarifies accounting principles for measuring the fair value of an equity security subject to a contractual sale restriction and improves current GAAP by reducing diversity in practice, reducing cost and complexity, and increasing comparability of financial information across reporting entities. • The amendments also require certain disclosures for equity securities subject to contractual sale restrictions.	• For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. • For all entities except investment companies, the Update should be applied prospectively with any adjustments from adoption recognized in earnings. • Early adoption is permitted.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at its website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-981-3323, or writing Alice Rivera, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936-3649, or accessing the website, *www.prfarmcredit.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 Association.

Puerto Rico Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2022	December 31, 2021
	(unaudited)	*(audited)*
Assets		
Cash	**$ 674**	$ 96
Loans	**180,338**	169,144
Allowance for loan losses	**(1,284)**	(1,193)
Net loans	**179,054**	167,951
Accrued interest receivable	**611**	709
Equity investments in other Farm Credit institutions	**1,309**	1,304
Premises and equipment, net	**886**	997
Other property owned	**1,672**	2,058
Accounts receivable	**986**	2,641
Other assets	**85**	83
Total assets	**$ 185,277**	$ 175,839
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 127,641**	$ 116,482
Accrued interest payable	**332**	188
Patronage refunds payable	**10**	2,701
Accounts payable	**328**	223
Other liabilities	**1,344**	935
Total liabilities	**129,655**	120,529
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	**495**	470
Unallocated retained earnings	**55,127**	54,840
Total members' equity	**55,622**	55,310
Total liabilities and members' equity	**$ 185,277**	$ 175,839

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2022	For the Three Months Ended September 30, 2021	For the Nine Months Ended September 30, 2022	For the Nine Months Ended September 30, 2021
Interest Income				
Loans	**$ 1,807**	$ 1,633	**$ 5,185**	$ 4,919
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**976**	541	**2,182**	1,609
Net interest income	**831**	1,092	**3,003**	3,310
Provision for loan losses	**62**	274	**88**	203
Net interest income after provision for loan losses	**769**	818	**2,915**	3,107
Noninterest Income				
Loan fees	**36**	38	**90**	104
Patronage refunds from other Farm Credit institutions	**271**	236	**795**	703
Gains (losses) on other transactions	**(25)**	(10)	**(53)**	(14)
Other noninterest income	**—**	—	**—**	2
Total noninterest income	**282**	264	**832**	795
Noninterest Expense				
Salaries and employee benefits	**516**	465	**1,461**	1,461
Occupancy and equipment	**67**	52	**168**	142
Insurance Fund premiums	**54**	38	**152**	110
Purchased services	**256**	194	**766**	665
Data processing	**11**	10	**37**	38
Other operating expenses	**228**	200	**739**	528
(Gains) losses on other property owned, net	**13**	15	**137**	(62)
Total noninterest expense	**1,145**	974	**3,460**	2,882
Net income (loss)	**$ (94)**	$ 108	**$ 287**	$ 1,020
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ (94)**	$ 108	**$ 287**	$ 1,020

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Total Members' Equity
Balance at December 31, 2020	$ 444	$ 54,344	$ 54,788
Comprehensive income		1,020	1,020
Capital stock/participation certificates issued/(retired), net	40		40
Balance at September 30, 2021	$ 484	$ 55,364	$ 55,848
Balance at December 31, 2021	**$ 470**	**$ 54,840**	**$ 55,310**
Comprehensive income		**287**	**287**
Capital stock/participation certificates issued/(retired), net	**25**		**25**
Balance at September 30, 2022	**$ 495**	**$ 55,127**	**$ 55,622**

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

Puerto Rico 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 Puerto Rico Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, 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. Such 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 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.

On September 18, 2022, the island of Puerto Rico was devastated by the impacts of Hurricane Fiona which caused widespread power outages, flooding, loss of communications and significant wind damage. Management has given principal and interest payment deferments to approximately 30% of Association customers as part of the Hurricane Fiona relief program and as a result $331 of interest income has been reversed in September 2022. Management is working to assess and quantify the financial impact this storm will have on our customers and the Association.

A summary of loans outstanding at period end follows:

	September 30, 2022	December 31, 2021
Real estate mortgage	$ 57,835	$ 59,897
Production and intermediate-term	57,442	56,557
Loans to cooperatives	1,962	1,821
Processing and marketing	42,350	36,032
Farm-related business	71	78
Communication	10,606	5,649
Rural residential real estate	6,083	7,220
International	3,989	1,890
Total loans	$ 180,338	$ 169,144

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present the principal balance of participation loans at periods ended:

	September 30, 2022							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 6,364	$ 3,778	$ –	$ –	$ –	$ –	$ 6,364	$ 3,778
Production and intermediate term	16,430	–	–	–	5,560	–	21,990	–
Loans to cooperatives	1,966	–	–	–	–	–	1,966	–
Processing and marketing	32,586	8,755	–	–	–	–	32,586	8,755
Communication	10,627	–	–	–	–	–	10,627	–
International	3,993	–	–	–	–	–	3,993	–
Total	$ 71,966	$ 12,533	$ –	$ –	$ 5,560	$ –	$ 77,526	$ 12,533

	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	$ 7,634	$ 4,000	$ –	$ –	$ 41	$ –	$ 7,675	$ 4,000
Production and intermediate term	16,718	204	–	–	4,693	–	21,411	204
Loans to cooperatives	1,826	–	–	–	–	–	1,826	–
Processing and marketing	23,790	12,323	–	–	805	–	24,595	12,323
Communication	5,666	–	–	–	–	–	5,666	–
International	1,892	–	–	–	–	–	1,892	–
Total	$ 57,526	$ 16,527	$ –	$ –	$ 5,539	$ –	$ 63,065	$ 16,527

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest, unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	September 30, 2022	December 31, 2021
Real estate mortgage:		
Acceptable	98.70%	98.67%
OAEM	0.66	0.66
Substandard/doubtful/loss	0.64	0.67
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	79.43%	78.84%
OAEM	4.03	7.05
Substandard/doubtful/loss	16.54	14.11
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	September 30, 2022	December 31, 2021
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	95.75%	96.10%
OAEM	3.17	–
Substandard/doubtful/loss	1.08	3.90
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	92.88%	92.29%
OAEM	1.60	2.59
Substandard/doubtful/loss	5.52	5.12
	100.00%	100.00%

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

	September 30, 2022				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 200	$ 418	$ 618	$ 57,418	$ 58,036
Production and intermediate-term	30	1,556	1,586	56,120	57,706
Loans to cooperatives	–	–	–	1,965	1,965
Processing and marketing	–	–	–	42,461	42,461
Farm-related business	–	–	–	71	71
Communication	–	–	–	10,607	10,607
Rural residential real estate	103	–	103	6,006	6,109
International	–	–	–	3,994	3,994
Total	$ 333	$ 1,974	$ 2,307	$ 178,642	$ 180,949

	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	$ 204	$ 454	$ 658	$ 59,537	$ 60,195
Production and intermediate-term	295	1,500	1,795	55,008	56,803
Loans to cooperatives	–	–	–	1,822	1,822
Processing and marketing	–	–	–	36,174	36,174
Farm-related business	–	–	–	78	78
Communication	–	–	–	5,650	5,650
Rural residential real estate	218	–	218	7,022	7,240
International	–	–	–	1,891	1,891
Total	$ 717	$ 1,954	$ 2,671	$ 167,182	$ 169,853

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

	September 30, 2022		December 31, 2021	
Nonaccrual loans:				
Real estate mortgage	$	1,488	$	1,604
Production and intermediate-term		4,819		4,913
Total	$	6,307	$	6,517
Accruing restructured loans:				
Real estate mortgage	$	851	$	1,203
Production and intermediate-term		2,798		2,870
Rural residential real estate		142		151
Total	$	3,791	$	4,224
Accruing loans 90 days or more past due:				
Total	$	–	$	–
Total nonperforming loans	$	10,098	$	10,741
Other property owned		1,672		2,058
Total nonperforming assets	$	11,770	$	12,799
Non-accrual loans as a percentage of total loans		3.50%		3.85%
Nonperforming assets as a percentage of total loans and other property owned		6.47%		7.48%
Nonperforming assets as a percentage of capital		21.16%		23.14%

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

	September 30, 2022		December 31, 2021	
Impaired nonaccrual loans:				
Current as to principal and interest	$	4,288	$	4,538
Past due		2,019		1,979
Total	$	6,307	$	6,517
Impaired accrual loans:				
Restructured	$	3,791	$	4,224
90 days or more past due		–		–
Total	$	3,791	$	4,224
Total impaired loans	$	10,098	$	10,741
Additional commitments to lend	$	–	$	–

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

	September 30, 2022			Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	409	407	94	416	3	427	8
Rural residential real estate	14	14	2	14	–	15	1
Total	$ 423	$ 421	$ 96	$ 430	$ 3	$ 442	$ 9
With no related allowance for credit losses:							
Real estate mortgage	$ 2,339	$ 2,664	$ –	$ 2,378	$ 16	$ 2,444	$ 47
Production and intermediate-term	7,208	8,578	–	7,330	50	7,532	145
Rural residential real estate	128	126	–	131	1	133	2
Total	$ 9,675	$ 11,368	$ –	$ 9,839	$ 67	$ 10,109	$ 194
Total impaired loans:							
Real estate mortgage	$ 2,339	$ 2,664	$ –	$ 2,378	$ 16	$ 2,444	$ 47
Production and intermediate-term	7,617	8,985	94	7,746	53	7,959	153
Rural residential real estate	142	140	2	145	1	148	3
Total	$ 10,098	$ 11,789	$ 96	$ 10,269	$ 70	$ 10,551	$ 203

Impaired loans:	December 31, 2021 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2021 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 200	$ 199	$ 2	$ 189	$ 7
Production and intermediate-term	422	403	22	400	16
Rural residential real estate	43	42	5	41	2
Total	$ 665	$ 644	$ 29	$ 630	$ 25
With no related allowance for credit losses:					
Real estate mortgage	$ 2,607	$ 2,872	$ –	$ 2,472	$ 99
Production and intermediate-term	7,361	8,567	–	6,979	278
Rural residential real estate	108	107	–	102	4
Total	$ 10,076	$ 11,546	$ –	$ 9,553	$ 381
Total impaired loans:					
Real estate mortgage	$ 2,807	$ 3,071	$ 2	$ 2,661	$ 106
Production and intermediate-term	7,783	8,970	22	7,379	294
Rural residential real estate	151	149	5	143	6
Total	$ 10,741	$ 12,190	$ 29	$ 10,183	$ 406

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:							
Balance at June 30, 2022	$ 369	$ 461	$ 272	$ 60	$ 44	$ 12	$ 1,218
Charge-offs	–	(4)	–	–	–	–	(4)
Recoveries	–	8	–	–	–	–	8
Provision for loan losses	12	8	20	10	(2)	14	62
Balance at September 30, 2022	$ 381	$ 473	$ 292	$ 70	$ 42	$ 26	$ 1,284
Balance at December 31, 2021	$ 414	$ 411	$ 261	$ 39	$ 55	$ 13	$ 1,193
Charge-offs	(24)	(12)	–	–	–	–	(36)
Recoveries	30	8	–	–	1	–	39
Provision for loan losses	(39)	66	31	31	(14)	13	88
Balance at September 30, 2022	$ 381	$ 473	$ 292	$ 70	$ 42	$ 26	$ 1,284
Balance at June 30, 2021	$ 536	$ 439	$ 300	$ 88	$ 75	$ 21	$ 1,459
Charge-offs	–	–	–	–	–	–	–
Recoveries	–	–	–	–	–	–	–
Provision for loan losses	57	154	69	(13)	9	(2)	274
Balance at September 30, 2021	$ 593	$ 593	$ 369	$ 75	$ 84	$ 19	$ 1,733
Balance at December 31, 2020	$ 572	$ 390	$ 307	$ 111	$ 84	$ 18	$ 1,482
Charge-offs	–	–	–	–	–	–	–
Recoveries	44	–	2	–	2	–	48
Provision for loan losses	(23)	203	60	(36)	(2)	1	203
Balance at September 30, 2021	$ 593	$ 593	$ 369	$ 75	$ 84	$ 19	$ 1,733
Allowance on loans evaluated for impairment:							
Individually	$ –	$ 94	$ –	$ –	$ 2	$ –	$ 96
Collectively	381	379	292	70	40	26	1,188
Balance at September 30, 2022	$ 381	$ 473	$ 292	$ 70	$ 42	$ 26	$ 1,284
Individually	$ 2	$ 22	$ –	$ –	$ 5	$ –	$ 29
Collectively	412	389	261	39	50	13	1,164
Balance at December 31, 2021	$ 414	$ 411	$ 261	$ 39	$ 55	$ 13	$ 1,193
Recorded investment in loans evaluated for impairment:							
Individually	$ 2,267	$ 7,638	$ –	$ –	$ 142	$ –	$ 10,047
Collectively	55,769	50,068	44,497	10,607	5,967	3,994	170,902
Balance at September 30, 2022	$ 58,036	$ 57,706	$ 44,497	$ 10,607	$ 6,109	$ 3,994	$ 180,949
Individually	$ 2,721	$ 7,943	$ –	$ –	$ 151	$ –	$ 10,815
Collectively	57,474	48,860	38,074	5,650	7,089	1,891	159,038
Balance at December 31, 2021	$ 60,195	$ 56,803	$ 38,074	$ 5,650	$ 7,240	$ 1,891	$ 169,853

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs that occurred during the three and nine months ended September 30, 2022.

	Three Months Ended September 30, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 892	$ –	$ 892	
Total	$ –	$ 892	$ –	$ 892	
Post-modification:					
Production and intermediate-term	$ –	$ 894	$ –	$ 894	$ –
Total	$ –	$ 894	$ –	$ 894	$ –

	Nine Months Ended September 30, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 340	$ –	$ 340	
Production and intermediate-term	–	892	–	892	
Rural residential real estate	–	28	–	28	
Total	$ –	$ 1,260	$ –	$ 1,260	
Post-modification:					
Real estate mortgage	$ –	$ 338	$ –	$ 338	$ –
Production and intermediate-term	–	894	–	894	–
Rural residential real estate	–	28	–	28	–
Total	$ –	$ 1,260	$ –	$ 1,260	$ –

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Defaulted troubled debt restructurings:				
Rural residential real estate	$ –	$ –	$ –	$ 29
Total	$ –	$ –	$ –	$ 29

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2022	**December 31, 2021**	**September 30, 2022**	**December 31, 2021**
Real estate mortgage	$ 1,906	$ 2,305	$ 1,055	$ 1,102
Production and intermediate-term	7,478	7,783	4,680	4,913
Rural residential real estate	142	151	–	–
Total loans	$ 9,526	$ 10,239	$ 5,735	$ 6,015
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 0.45 percent of the issued stock of the Bank as of September 30, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled $41.7 billion and shareholders' equity totaled $1.6 billion. The Bank's earnings were $313 million for the first nine months of 2022. In addition, the Association held $145 in investments 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 within the fair value hierarchy are as follows:

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

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

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

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

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

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

	September 30, 2022				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
<u>Nonrecurring Measurements</u>					
Assets:					
Impaired loans	$ 327	$ –	$ –	$ 327	$ 327
Other property owned	1,672	–	–	1,844	1,844
Nonrecurring Assets	$ 1,999	$ –	$ –	$ 2,171	$ 2,171
<u>Other Financial Instruments</u>					
Assets:					
Cash	$ 674	$ 674	$ –	$ –	$ 674
Loans	178,727	–	–	174,159	174,159
Other Financial Assets	$ 179,401	$ 674	$ –	$ 174,159	$ 174,833
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 127,641	$ –	$ –	$ 127,069	$ 127,069
Other Financial Liabilities	$ 127,641	$ –	$ –	$ 127,069	$ 127,069

	December 31, 2021								
		Total Carrying Amount		Level 1		Level 2		Level 3		Total Fair Value
Recurring Measurements										
Assets:										
Recurring Assets	$	–	$	–	$	–	$	–	$	–
Liabilities:										
Recurring Liabilities	$	–	$	–	$	–	$	–	$	–
Nonrecurring Measurements										
Assets:										
Impaired loans	$	636	$	–	$	–	$	636	$	636
Other property owned		2,058		–		–		2,256		2,256
Nonrecurring Assets	$	2,694		–	$	–		2,892		2,892
Other Financial Instruments										
Assets:										
Cash	$	96	$	96	$	–	$	–	$	96
Loans		167,315		–		–		167,132		167,132
Other Financial Assets	$	167,411	$	96	$	–	$	167,132	$	167,228
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	$	116,482	$	–	$	–	$	116,908	$	116,908
Other Financial Liabilities	$	116,482	$	–	$	–	$	116,908	$	116,908

Uncertainty in Measurements of Fair Value

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 6 — Employee Benefit Plans

The following is a table of retirement expenses for the Association:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Pension	$ 62	$ 176	$ 184	$ 529
401(k)	25	21	70	64
Total	$ 87	$ 197	$ 254	$ 593

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, except as described below, there were none requiring disclosure through November 8, 2022, which was the date the financial statements were issued.

During October 2022, the Association sold various Other Property Owned properties with a total recorded investment of $916 and recorded gains on sale of $4,115 and write down recoveries of $719.