AgSouth Farm Credit, ACA

SECOND QUARTER 2022

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CERTIFICATION

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

Pat Calhoun
Chief Executive Officer

Bo Fennell
Chief Financial Officer

H. Frank Ables, Jr.
Chairman of the Board

August 8, 2022

AgSouth 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 affected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

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

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

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

Pat Calhoun
Chief Executive Officer

Bo Fennell
Chief Financial Officer

August 8, 2022

AgSouth Farm Credit, ACA

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

(dollars in thousands)

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

FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

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 wide range of agricultural commodities produced in our region, including timber, poultry (broilers, turkeys and eggs), sod, nursery and horticulture, cotton, feed grains, soybeans and hay, beef cattle, horses, peanuts, blueberries, fruits, and nuts. Loans to producers of these commodities total $1,761,729 or 85.80 percent of the Association's portfolio. Farm size varies, and many of the Association's customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

AGRICULTURE OVERVIEW

The top three agricultural commodities by repayment source in the AgSouth Farm Credit, ACA portfolio are broilers, timber, and cotton. The purpose of this section is to give an overview of the top three agricultural commodities and other matters regarding other commodity groups as needed.

Broilers – In the National Agriculture Statistics Service's (NASS) report for the week ending July 2, 2022, domestic broiler growers placed 191 million chicks for meat production which is up slightly from a year ago. In Georgia, 25.7 million broiler chicks were placed which is a 1 percent decrease from the same time last year. South Carolina had 4.5 million broiler chicks placed which represents an 8 percent decrease from a year ago. Avian Influenza continues to be a concern but no commercial flocks have been impacted in Georgia or South Carolina. The majority of affected cases in commercial poultry have been in the mid-west United States.

Timber - According to the second quarter 2022 *Market Report* by TimberMart-South south-wide average stumpage prices decreased for all five major products. Pine chip-n-saw and pine pulpwood prices fell 15 percent and 10 percent, respectively. This downward movement in price is in line with seasonal norms. Softwood lumber prices decreased 54 percent quarter to quarter after reaching near record high levels in March.

Cotton - In the NASS report for crop progress for the week ending July 3, 2022, cotton in Georgia and South Carolina has been planted and has continued to square and set bolls. Both states are in line with historical averages in terms of progress of the crop.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of June 30, 2022 was $2,053,205 an increase of $21,534 or 1.06 percent compared to $2,031,671 at December 31, 2021. Net loans outstanding at June 30, 2022 were $2,036,484 as compared to $2,013,959 at December 31, 2021. Net loans accounted for 96.54 percent of total assets at June 30, 2022, as compared to 95.02 percent of total assets at December 31, 2021.

The increase in gross loan volume during the reporting period is attributed to the funding of operating lines of credit and term loans during the busiest time of the growing season. Advances on most operating lines are now funded and additional anticipated growth in the portfolio is being realized. Competition for good quality loans remains strong from some commercial banks, but the Association has remained competitive in a difficult rate environment.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

At December 31, 2021 the Association held Investments in debt securities totaling $3,756. These investments are Rural America Bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration (FCA). At June 30, 2022 Investments in debt securities totaled $3,654, a decrease of $102 from December 31, 2021. The 2.72 percent decrease is from payments received in 2022.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality is at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from $12,133 at December 31, 2021 to $9,253 at June 30, 2022. The balance of nonaccrual loans is decreased by loans returning to accrual status, liquidations, or transfer of assets to other property owned offset by transfers to nonaccrual status. Association staff is working diligently to work out all nonaccrual debt situations.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2022 was $16,721 compared to $17,712 at December 31, 2021 and was considered by management to be adequate to cover possible losses. Although management has not recognized any direct decline in credit quality, an adjustment to the qualitative factors seemed prudent given the financial climate. The reserve set aside for unfunded commitments is $279 which is a decrease of $259 compared to the total at December 31, 2021 of $538. The reserve for unfunded commitments is included in Other liabilities. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of executive management and staff assigned to special assets management, met in June 2022 to review the allowance account. The ALCO determines the composition between the allowance for loan losses on the outstanding portfolio and the reserve required for unfunded commitments. The ALCO considered the general economic conditions, the potential for deterioration in the existing portfolio, the loan growth in the portfolio, and the amount of outstanding loan commitments in determining the level of allowance.

As of the end of the second quarter of 2022, the Association had originated $159,503 in loans for the secondary market. Originations for the same period 2021 were $143,672. The 11.02 percent increase is due to increased home prices and building costs. As of June 30, 2022 the Association held $1,382 in qualifying Loans held for sale. At December 31, 2021 loans held for sale totaled $4,236.

Accrued interest receivable increased $105 or less than one percent from $15,555 as of December 31, 2021 to $15,660 as of June 30, 2022. The increase is related to the higher loan volume at June 30, 2022 compared to December 31, 2021.

Equity investments in other Farm Credit institutions increased from $20,688 at December 31, 2021 to $21,310 at June 30, 2022. The increase of $622, or 3.01 percent, is the result of a higher balance of investment in other Farm Credit institutions, which varies based on participations sold on a patronage basis.

Premises and equipment, net decreased $511 from $20,717 at December 31, 2021 to $20,206 at June 30, 2022. The primary reason for the decrease of 2.47 percent is due to depreciation on assets.

Other property owned decreased to $183 at June 30, 2022 from $215 at December 31, 2021. The decrease of $32 or 14.88 percent in Other property owned is the result of the sales and write-downs of Other property owned exceeding the acquisitions of Other property owned during the reporting period.

Accounts receivable decreased $29,152 from $36,947 at December 31, 2021 to $7,795 at June 30, 2022. The decrease is the result of the patronage distribution receivable at December 31, 2021 from AgFirst and other Farm Credit institutions, which totaled $14,777 in regular distribution and $21,523 in a special distribution. As of June 30, 2022 this line item included two quarters of patronage accrual from AgFirst and other Farm Credit institutions totaling $7,355.

Other assets increased from $2,711 at December 31, 2021 to $2,787 at June 30, 2022. The majority of other assets is made up of prepaid retirement expense which totaled $1,452 as of June 30, 2022.

On the liability side of the balance sheet, Notes payable to AgFirst Farm Credit Bank increased from $1,617,876 at December 31, 2021 to $1,632,156 at June 30, 2022. The $14,280 or less than one percent increase is tied to the increase in loans outstanding.

Accrued interest payable increased $368, or 10.92 percent, from $3,371 at December 31, 2021 to $3,739 at June 30, 2022. The increase is due to the increase in the notes payable balance outstanding.

Patronage refunds payable decreased $32,106 from $32,431 at December 31, 2021 to $325 at June 30, 2022. The decrease is the result of the 2021 All Cash Patronage Distribution on the Association's records at December 31, 2021 moving from Patronage refund payable to Other liabilities. This amount totaled $32,000 at December 31, 2021. Checks were mailed to customers during the first quarter of 2022. No patronage distribution had been declared for 2022 as of June 30, 2022.

Accounts payable increased $855 from $3,067 at December 31, 2021 to $3,922 at June 30, 2022. The 27.88 percent increase is due to the payable established to resolve disputed claims and to pay the insurance premiums on loans to the Farm Credit System Insurance Corporation (FCSIC). At December 31, 2021 the payable related to the FCSIC totaled $2,298, and at June 30, 2022 the payable was $1,453.

Other liabilities increased $1,948 from $15,224 at December 31, 2021 to $17,172 at June 30, 2022. The 12.80 percent increase is due to the 2021 All Cash Patronage Distribution and the revolvement of the 2016 series Allocated Surplus checks that were distributed to Association members. This balance will decrease as checks are presented at the commercial bank.

Capital stock and participation certificates increased from $11,107 at December 31, 2021 to $11,170 at June 30, 2022. The increase of $63 or less than one percent is due to new borrowers purchasing stock during the reporting period in excess of liquidations of stock when loans pay out.

Allocated surplus decreased from $121,081 at December 31, 2021 to $101,244 at June 30, 2022. This is a decrease of $19,837 or 16.38 percent. The reduction is from the decision made by the Board of Directors to revolve the 2016 series of Allocated Surplus in January 2022.

Unallocated surplus increased $24,191 or 7.63 percent from the December 31, 2021 balance of $317,250. The balance of $341,441 at June 30, 2022 includes the retention of a portion of 2021 fiscal year end earnings and earnings year to date in 2022.

Accumulated other comprehensive loss decreased $260 or 13.44 percent from the December 31, 2021 balance of $1,934. At June 30, 2022 there was a balance of $1,674.

RESULTS OF OPERATIONS

For the three months ended June 30, 2022

Net income for the three months ended June 30, 2022 totaled $11,100 as compared to $12,432 for the same period in 2021. This is a decrease of $1,332 or 10.71 percent. Comprehensive income for the three months ended June 30, 2022 was $11,230 compared to $12,438 for the same period in 2021. Employee benefit plans adjustments are responsible for the difference between comprehensive income and net income. The following commentary explains the variance.

At June 30, 2022 interest income on loans increased $1,353 from $26,368 at June 30, 2021 to $27,721 at June 30, 2022. This increase of 5.13 percent is primarily due to an increase in loan volume and interest rates between the two reporting periods.

For the three months ended June 30, 2022 interest income on investments totaled $64 compared to $67 for the three months ended June 30, 2021. Investment income declined $3 or 4.48 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense for the three months ended June 30, 2022 increased $1,058 from $9,760 at June 30, 2021 to $10,818 at June 30, 2022. The variance of 10.84 percent is tied to the weighted average direct note rate between the two reporting periods.

Net interest income before the reversal of allowance for loan losses increased $292 for the three months ended June 30, 2022 as compared to the same period in 2021. The increase is due primarily to the higher interest income between the two reporting periods.

Net interest income after the reversal of allowance for loan losses increased $764 during the quarter ending June 30, 2022 compared to June 30, 2021. A reversal of allowance for loan losses of $283 was made in the quarter ending June 30, 2022. The reversal of allowance for loan losses entry represents an adjustment between the general provision and the unfunded commitments provision which is booked to Other liabilities.

Noninterest income decreased $1,480 over the same period last year. The commentary that follows will detail the aggregate difference.

Loan fees decreased $388 or 22.80 percent, due to the discontinuation of the Small Business Administration's Paycheck Protection Program during the height of the pandemic in which the Association earned fees on those loans.

Fees for financially related services increased $101 from $170 at June 30, 2021 to $271 at June 30, 2022. The increase of 59.41 percent is primarily due to the increase in crop insurance income earned during the reporting period.

Patronage refunds from other Farm Credit institutions increased $525 from $3,948 at June 30, 2021 to $4,473 at June 30, 2022. The increase of 13.30 percent is due to an increase in patronage distribution from AgFirst on participations sold. See *Note 2* for more information.

Gains on the sale of rural home loans increased $159 from $709 at June 30, 2021 compared to $868 at June 30, 2022. The increase is due to the increase in volume of Secondary Mortgage Markets sold.

Gains on the sale of premises and equipment, net for the period ending June 30, 2022 totaled $58 compared to $130 for the period ending June 30, 2021. The Association sold more fleet vehicles in 2021 compared to 2022.

Losses on other transactions totaled $1,740 at June 30, 2022 compared to a Gains on other transactions of $122 at June 30, 2021. This difference is due to a liability being established for $1,600 and offsetting loss to resolve disputed claims.

Other noninterest income was $118 during the three months ended June 30, 2022 compared to $61 for the three months ending June 30, 2021. The majority of this line item consists of fees received from Secondary Mortgage Market referrals.

Noninterest expense for the three months ended June 30, 2022 totaled $11,512 and increased $616 or 5.65 percent when compared to $10,896 for the same period of 2021. Salaries and employee benefits expense is the largest portion of noninterest expense and totaled $8,083 for the three months ended June 30, 2022. Salaries and employee benefits decreased $137 between the two reporting periods. There is a 1.67 percent variance between the two reporting periods due to the decrease in the fair market value of retirement plans as well as the lower expected funding cost of the pension plan for the current year.

Occupancy and equipment expense at June 30, 2022 was $470 compared to $491 for the same period in 2021. This is a decrease of $21 or 4.28 percent. The decrease is tied to lower maintenance costs.

The Insurance Fund premiums at June 30, 2022 were $882 and at June 30, 2021 were $571. The $311 or 54.47 percent increase is due to the higher premium assessment rate in 2022.

Purchased Services at June 30, 2022 were $436 and at June 30, 2021 were $407. The $29 or 7.13 percent increase is due to the increased closing costs in the relation to the growth loan volume.

Data processing expense at June 30, 2022 was $105 compared to $110 for the same period in 2021. This is a decrease of $5 or 4.55 percent. The decrease is tied to lower data processing servicing costs.

Other operating expenses increased $456 from $1,092 at June 30, 2021 compared to $1,548 at June 30, 2022. The increase of 41.76 percent is attributed to an increase in directors expense, travel, Association vehicles, and marketing activities.

In the three months ending June 30, 2022 the Association experienced Gains on the sale of other property owned in the amount of $12. During the same period of 2021, the Association booked losses on the sale of other property owned of $5. The gain is the result of sales exceeding any write-downs during the second quarter.

For the six months ended June 30, 2022

Net income for the six months ended June 30, 2022, totaled $24,191 as compared to $24,537 for the same period in 2021. This is a decrease of $346 or 1.41 percent. Comprehensive income for the six months ended June 30, 2022 was $24,451 compared to $24,549 for the six months ended June 30, 2021. Employee benefit plans adjustments are responsible for the difference between comprehensive income and net income. The following narrative will explain the variance.

At June 30, 2022 interest income on loans increased $1,901 to $54,435 compared to $52,534 for the same period in 2021. The increase is tied to growth in loan volume and the increase in the overall weighted average interest rate earned.

For the six months ending June 30, 2021 interest income on investments totaled $127 compared to $134 for the same period ended June 30, 2022. Investment income declined $7 or 5.22 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense increased $1,311 or 6.81 percent from $19,264 at June 30, 2021 to $20,575 for the six months ended June 30, 2022. The net increase is attributable to a higher direct note balance between the reporting periods.

Net interest income before the provision for loan loss increased $583 or 1.75 percent for the six months ended June 30, 2022 as compared to the same period in 2021 primarily due to the increase in loan volume. Net interest income after the provision for loan losses increased $2,044 for the period ending June 30, 2022 primarily due to an increase in loan volume, as well.

The Provision for loan losses amount in the 2021 reporting period totaled $127 and there were reversal entries totaling $1,334 in the 2022 reporting period. In June 2022, the Association's ALCO made the decision to decrease the allowance requiring a decrease to the general reserve and the allowance for unfunded commitments which resides within Other Liabilities. These decisions were made after analyzing the risk in the current portfolio. The ALCO analysis included reviewing historical trends, loan size, loan performance and credit quality reports.

Noninterest income for the six months ended June 30, 2022 decreased $845 compared to the same period of 2021. Loan fees decreased $784 or 23.06 percent. The decrease is due to a decrease in SMM originations and fees received from SBA PPP Loans that has been discontinued.

Fees for financially related services increased $200 from $717 at June 30, 2021 compared to $917 at June 30, 2022. The

27.89 percent increase in fees for financially related services is the result of an increase in fee income earned on the sale of crop insurance policies.

The patronage refunds from other Farm Credit institutions increased $792 from $7,433 at June 30, 2021 to $8,225 at June 30, 2022. The increase of 10.66 percent is due to an increase in patronage distribution from AgFirst on participations sold.

Gains on the sale of rural home loans increased $455 from $1,383 at June 30, 2021 to $1,838 at June 30, 2022. Gains increased due to the increase in Secondary Mortgage Market volume compared to the prior period.

Gains on the sale of premises and equipment increased $20 from $130 for the period ending June 30, 2021 to $150 at June 30, 2022. The increase is the result of the increased resell value of Association vehicles sold during the period.

Losses on other transactions totaled $1,497 for the six months ended June 30, 2022 compared to gains of $188 for the same period in 2021. The losses recorded in the 2022 reporting period are primarily related to a liability established to settle disputed claims.

Other noninterest income increased $157 from $123 at June 30, 2021 compared to $280 at June 30, 2022. The variance of 127.64 percent is due to volume premiums paid by AgFirst for secondary market activity and settlement payments received.

Noninterest expense for the six months ended June 30, 2022 increased $1,551 compared to the same period of 2021 from $22,116 to $23,667. Salaries and employee benefits expense increased $455 between the two reporting periods. The 2.73 percent increase in salaries and employee benefits is tied to the increase in salaries and bonuses. The Association accrues for the 2022 incentive payment based upon plan results which are included in salary and benefit expense. The Association evaluated 2022 performance measures for incentive purposes and determined that some employees could earn incentive in 2022. Based upon this information, the Association will continue to accrue for incentive. The expense associated with the incentive accrual balance as of June 30, 2022 is $1,800. Association results will be re-evaluated prior to the end of the fourth quarter 2022 to determine the most accurate accrual for the 2022 incentive plan.

Occupancy and equipment expense at June 30, 2022 was $979 compared to $1,226 for the same period in 2021. The decrease is tied to the reclassification of property taxes.

The Insurance Fund premiums increased from $1,119 at June 30, 2021 to $1,453 at June 30, 2022. The increase of $334 or 29.85 percent is due to the higher insurance fund premium rate in 2022 compared to 2021.

Purchased Services totaled $871 for the six months ending June 30, 2022. This is an increase of $158 or 22.16 percent compared to the six months ending June 30, 2021 total of $713. The increase is due to the increased closing costs in relation to the growth in loan volume.

Data Processing increased $20 or 9.09 percent from $220 for six months ending June 30, 2021 compared to $240 for six months ending June 30, 2022. The increase is tied to the purchase of telecommunication services.

Other operating expenses increased $828 from $2,204 at June 30, 2021 compared to $3,032 at June 30, 2022. The increase is primarily due to director, training, and marketing expenses that were not warranted in 2021 due to the COVID-19 pandemic.

Gains on other property owned, net totaled $23 for the six months ending June 30, 2022. When compared to the same period in 2021, gains on other property owned totaled $26. These amounts are due to the gains recognized on the sale of other property owned exceeding any write-downs.

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 the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2022 was $1,632,156 as compared to $1,617,876 at December 31, 2021. The $14,280 increase, or less than one percent, is directly tied to the increase in loan volume.

CAPITAL RESOURCES

Total members' equity at December 31, 2021 totaled $447,504. At June 30, 2022 total members' equity had increased by $4,677 to $452,181. The increase in total members' equity is due to an increase in Unallocated retained earnings between the two reporting periods. At December 31, 2021 Allocated retained earnings totaled $121,081 compared to $101,244 at June 30, 2022. The decrease is due to the revolvement of the 2016 series of allocated surplus in the first quarter of 2022. At December 31, 2021 Unallocated retained earnings totaled $317,250 and increased to $341,441. The increase in Unallocated retained earnings is due to the decision to retain a portion of the 2021 earnings for capital purposes and year to date 2022 earnings.

Total Capital stock and participation certificates were $11,170 on June 30, 2022 compared to $11,107 on December 31, 2021. The increase is attributed to the purchase of new stock and participation certificates for new borrowing entities offset by the retirement of stock and participation certificates on loans liquidated in the normal course of business.

The Association's capital ratios are calculated in accordance with FCA regulations, as follows:

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

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.

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

Ratio	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of June 30, 2022
Risk-adjusted ratios:		
CET1 Capital	7.00%	16.02%
Tier 1 Capital	8.50%	16.02%
Total Capital	10.50%	21.84%
Permanent Capital Ratio	7.00%	21.18%
Non-risk-adjusted:		
Tier 1 Leverage Ratio	5.0%	15.63%
UREE Leverage Ratio	1.5%	15.09%

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

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

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

(dollars in thousands)	Due in 2022	Due in 2023 and Thereafter	Total
Loans	$ 1,600	$ 8,739	$ 10,339
Total Assets	$ 1,600	$ 8,739	$ 10,339
Note Payable to AgFirst Farm Credit Bank	$ 1,262	$ 6,893	$ 8,155
Total Liabilities	$ 1,262	$ 6,893	$ 8,155

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.

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.

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***. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-633-9091, ext. 2674, writing Bo Fennell, CFO, AgSouth Farm Credit, ACA, P.O. Box 718, Statesboro, GA 30459, or accessing the Association's website ***www.agsouthfc.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual report to Shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the 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.

Reports of suspected or actual wrongdoings involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (NAVEX Global) at 1-833-220-9744 or ***www.agsouth.ethicspoint.com***.

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2022 *(unaudited)*	December 31, 2021 *(audited)*
Assets		
Cash	**$ 34**	$ 689
Investments in debt securities:		
Held to maturity (fair value of $3,616 and $4,061, respectively)	**3,654**	3,756
Loans	**2,053,205**	2,031,671
Allowance for loan losses	**(16,721)**	(17,712)
Net loans	**2,036,484**	2,013,959
Loans held for sale	**1,382**	4,236
Accrued interest receivable	**15,660**	15,555
Equity investments in other Farm Credit institutions	**21,310**	20,688
Premises and equipment, net	**20,206**	20,717
Other property owned	**183**	215
Accounts receivable	**7,795**	36,947
Other assets	**2,787**	2,711
Total assets	**$ 2,109,495**	$ 2,119,473
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,632,156**	$ 1,617,876
Accrued interest payable	**3,739**	3,371
Patronage refunds payable	**325**	32,431
Accounts payable	**3,922**	3,067
Other liabilities	**17,172**	15,224
Total liabilities	**1,657,314**	1,671,969
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**11,170**	11,107
Retained earnings		
Allocated	**101,244**	121,081
Unallocated	**341,441**	317,250
Accumulated other comprehensive income (loss)	**(1,674)**	(1,934)
Total members' equity	**452,181**	447,504
Total liabilities and members' equity	**$ 2,109,495**	$ 2,119,473

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

AgSouth Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended June 30, 2022	For the Three Months Ended June 30, 2021	For the Six Months Ended June 30, 2022	For the Six Months Ended June 30, 2021
Interest Income				
Loans	**$ 27,721**	$ 26,368	**$ 54,435**	$ 52,534
Investments	**64**	67	**127**	134
Total interest income	**27,785**	26,435	**54,562**	52,668
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**10,818**	9,760	**20,575**	19,264
Total interest expense	**10,818**	9,760	**20,575**	19,264
Net interest income	**16,967**	16,675	**33,987**	33,404
Provision for (reversal of) allowance for loan losses	**(283)**	189	**(1,334)**	127
Net interest income after provision for (reversal of) allowance for loan losses	**17,250**	16,486	**35,321**	33,277
Noninterest Income				
Loan fees	**1,314**	1,702	**2,616**	3,400
Fees for financially related services	**271**	170	**917**	717
Patronage refunds from other Farm Credit institutions	**4,473**	3,948	**8,225**	7,433
Gains (losses) on sales of rural home loans, net	**868**	709	**1,838**	1,383
Gains (losses) on sales of premises and equipment, net	**58**	130	**150**	130
Gains (losses) on other transactions	**(1,740)**	122	**(1,497)**	188
Other noninterest income	**118**	61	**280**	123
Total noninterest income	**5,362**	6,842	**12,529**	13,374
Noninterest Expense				
Salaries and employee benefits	**8,083**	8,220	**17,115**	16,660
Occupancy and equipment	**470**	491	**979**	1,226
Insurance Fund premiums	**882**	571	**1,453**	1,119
Purchased services	**436**	407	**871**	713
Data processing	**105**	110	**240**	220
Other operating expenses	**1,548**	1,092	**3,032**	2,204
(Gains) losses on other property owned, net	**(12)**	5	**(23)**	(26)
Total noninterest expense	**11,512**	10,896	**23,667**	22,116
Income before income taxes	**11,100**	12,432	**24,183**	24,535
Provision (benefit) for income taxes	**—**	—	**(8)**	(2)
Net income	**$ 11,100**	$ 12,432	**$ 24,191**	$ 24,537
Other comprehensive income net of tax				
Employee benefit plans adjustments	**130**	6	**260**	12
Comprehensive income	**$ 11,230**	$ 12,438	**$ 24,451**	$ 24,549

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

AgSouth Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings: Allocated	Retained Earnings: Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 10,626	$ 139,757	$ 286,811	$ (693)	$ 436,501
Comprehensive income			24,537	12	24,549
Capital stock/participation certificates issued/(retired), net	378				378
Patronage distribution					
Cash			(10,000)		(10,000)
Retained earnings retired		(18,352)			(18,352)
Patronage distribution adjustment		(268)	250		(18)
Balance at June 30, 2021	$ 11,004	$ 121,137	$ 301,598	$ (681)	$ 433,058
Balance at December 31, 2021	**$ 11,107**	**$ 121,081**	**$ 317,250**	**$ (1,934)**	**$ 447,504**
Comprehensive income			**24,191**	**260**	**24,451**
Capital stock/participation certificates issued/(retired), net	**63**				**63**
Retained earnings retired		**(19,840)**			**(19,840)**
Patronage distribution adjustment		**3**			**3**
Balance at June 30, 2022	**$ 11,170**	**$ 101,244**	**$ 341,441**	**$ (1,674)**	**$ 452,181**

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization
The accompanying financial statements include the accounts of AgSouth Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2021 are contained in the 2021 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation
In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies
The Association's accounting and reporting policies conform with US generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition. Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

Accounting Standards Effective During the Period
There were no changes in the accounting principles applied from the latest Annual Report.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

	June 30, 2022	December 31, 2021
Real estate mortgage	$ 1,615,623	$ 1,563,155
Production and intermediate-term	297,000	324,964
Processing and marketing	20,377	23,743
Farm-related business	17,714	19,427
Rural residential real estate	102,329	100,215
Other (including Mission Related)	162	167
Total loans	$ 2,053,205	$ 2,031,671

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

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

	June 30, 2022							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,185	$ 120,657	$ 325	$ 7,516	$ –	$ –	$ 9,510	$ 128,173
Production and intermediate-term	3,864	65,699	1,078	–	3,931	–	8,873	65,699
Processing and marketing	–	119,951	–	21,871	–	–	–	141,822
Farm-related business	–	6,000	–	–	–	–	–	6,000
Total	$ 13,049	$ 312,307	$ 1,403	$ 29,387	$ 3,931	$ –	$ 18,383	$ 341,694

	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	$ 9,751	$ 145,471	$ 336	$ 8,053	$ –	$ –	$ 10,087	$ 153,524
Production and intermediate-term	3,009	32,090	1,231	–	2,523	–	6,763	32,090
Processing and marketing	–	124,085	181	24,206	–	–	181	148,291
Farm-related business	915	10,018	–	–	–	–	915	10,018
Total	$ 13,675	$ 311,664	$ 1,748	$ 32,259	$ 2,523	$ –	$ 17,946	$ 343,923

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

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

	June 30, 2022	December 31, 2021
Real estate mortgage:		
Acceptable	98.70%	98.59%
OAEM	0.48	0.50
Substandard/doubtful/loss	0.82	0.91
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	96.83%	96.61%
OAEM	1.99	1.95
Substandard/doubtful/loss	1.18	1.44
	100.00%	100.00%
Processing and marketing:		
Acceptable	98.72%	95.02%
OAEM	–	–
Substandard/doubtful/loss	1.28	4.98
	100.00%	100.00%
Farm-related business:		
Acceptable	92.15%	87.52%
OAEM	3.10	2.84
Substandard/doubtful/loss	4.75	9.64
	100.00%	100.00%

	June 30, 2022	December 31, 2021
Rural residential real estate:		
Acceptable	98.92%	99.03%
OAEM	0.52	0.42
Substandard/doubtful/loss	0.56	0.55
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	98.38%	98.15%
OAEM	0.72	0.75
Substandard/doubtful/loss	0.90	1.10
	100.00%	100.00%

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

	June 30, 2022				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 9,160	$ 2,942	$ 12,102	$ 1,614,980	$ 1,627,082
Production and intermediate-term	872	2,052	2,924	297,575	300,499
Processing and marketing	–	–	–	20,583	20,583
Farm-related business	630	478	1,108	16,686	17,794
Rural residential real estate	626	104	730	101,994	102,724
Other (including Mission Related)	–	–	–	162	162
Total	$ 11,288	$ 5,576	$ 16,864	$ 2,051,980	$ 2,068,844

	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	$ 6,001	$ 3,612	$ 9,613	$ 1,564,204	$ 1,573,817
Production and intermediate-term	1,987	2,057	4,044	325,190	329,234
Processing and marketing	181	–	181	23,722	23,903
Farm-related business	160	498	658	18,930	19,588
Rural residential real estate	675	56	731	99,763	100,494
Other (including Mission Related)	–	–	–	169	169
Total	$ 9,004	$ 6,223	$ 15,227	$ 2,031,978	$ 2,047,205

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

	June 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	$ 5,699	$ 6,919
Production and intermediate-term	2,752	3,475
Processing and marketing	–	880
Farm-related business	681	691
Rural residential real estate	121	168
Total	$ 9,253	$ 12,133
Accruing restructured loans:		
Real estate mortgage	$ 5,495	$ 5,733
Production and intermediate-term	1,034	918
Farm-related business	107	–
Rural residential real estate	17	29
Total	$ 6,653	$ 6,680
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 15,906	$ 18,813
Other property owned	183	215
Total nonperforming assets	$ 16,089	$ 19,028
Nonaccrual loans as a percentage of total loans	0.45%	0.60%
Nonperforming assets as a percentage of total loans and other property owned	0.78%	0.94%
Nonperforming assets as a percentage of capital	3.56%	4.25%

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

	June 30, 2022	December 31, 2021
Impaired nonaccrual loans:		
Current as to principal and interest	$ 2,968	$ 3,724
Past due	6,285	8,409
Total	$ 9,253	$ 12,133
Impaired accrual loans:		
Restructured	$ 6,653	$ 6,680
90 days or more past due	–	–
Total	$ 6,653	$ 6,680
Total impaired loans	$ 15,906	$ 18,813
Additional commitments to lend	$ –	$ –

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

	June 30, 2022			Three Months Ended June 30, 2022		Six Months Ended June 30, 2022	
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	394	387	102	394	7	422	17
Farm-related business	138	313	76	138	3	148	6
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 532	$ 700	$ 178	$ 532	$ 10	$ 570	$ 23
With no related allowance for credit losses:							
Real estate mortgage	$ 11,194	$ 13,567	$ –	$ 11,181	$ 209	$ 11,993	$ 483
Production and intermediate-term	3,392	4,999	–	3,387	64	3,634	147
Farm-related business	650	1,024	–	649	12	696	28
Rural residential real estate	138	174	–	138	2	148	6
Total	$ 15,374	$ 19,764	$ –	$ 15,355	$ 287	$ 16,471	$ 664
Total impaired loans:							
Real estate mortgage	$ 11,194	$ 13,567	$ –	$ 11,181	$ 209	$ 11,993	$ 483
Production and intermediate-term	3,786	5,386	102	3,781	71	4,056	164
Farm-related business	788	1,337	76	787	15	844	34
Rural residential real estate	138	174	–	138	2	148	6
Total	$ 15,906	$ 20,464	$ 178	$ 15,887	$ 297	$ 17,041	$ 687

	December 31, 2021			Year Ended December 31, 2021	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	297	317	94	340	24
Processing and marketing	–	–	–	–	–
Farm-related business	157	167	25	180	12
Rural residential real estate	–	–	–	–	–
Total	$ 454	$ 484	$ 119	$ 520	$ 36
With no related allowance for credit losses:					
Real estate mortgage	$ 12,652	$ 15,001	$ –	$ 14,475	$ 1,008
Production and intermediate-term	4,096	6,189	–	4,686	326
Processing and marketing	880	905	–	1,008	70
Farm-related business	534	1,073	–	611	43
Rural residential real estate	197	269	–	224	15
Total	$ 18,359	$ 23,437	$ –	$ 21,004	$ 1,462
Total impaired loans:					
Real estate mortgage	$ 12,652	$ 15,001	$ –	$ 14,475	$ 1,008
Production and intermediate-term	4,393	6,506	94	5,026	350
Processing and marketing	880	905	–	1,008	70
Farm-related business	691	1,240	25	791	55
Rural residential real estate	197	269	–	224	15
Total	$ 18,813	$ 23,921	$ 119	$ 21,524	$ 1,498

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
Activity related to the allowance for credit losses:						
Balance at March 31, 2022	$ 13,301	$ 2,484	$ 372	$ 825	$ 1	$ 16,983
Charge-offs	–	(13)	–	(12)	–	(25)
Recoveries	9	28	–	9	–	46
Provision for loan losses	(299)	6	11	(1)	–	(283)
Balance at June 30, 2022	$ 13,011	$ 2,505	$ 383	$ 821	$ 1	$ 16,721
Balance at December 31, 2021	$ 13,525	$ 2,923	$ 399	$ 864	$ 1	$ 17,712
Charge-offs	(25)	(61)	–	(15)	–	(101)
Recoveries	70	359	2	13	–	444
Provision for loan losses	(559)	(716)	(18)	(41)	–	(1,334)
Balance at June 30, 2022	$ 13,011	$ 2,505	$ 383	$ 821	$ 1	$ 16,721
Balance at March 31, 2021	$ 13,270	$ 2,769	$ 497	$ 812	$ 2	$ 17,350
Charge-offs	(41)	(165)	–	–	–	(206)
Recoveries	1	15	–	5	–	21
Provision for loan losses	(181)	327	48	(4)	(1)	189
Balance at June 30, 2021	$ 13,049	$ 2,946	$ 545	$ 813	$ 1	$ 17,354
Balance at December 31, 2020	$ 13,021	$ 3,017	$ 538	$ 779	$ 2	$ 17,357
Charge-offs	(41)	(206)	(72)	(7)	–	(326)
Recoveries	81	107	1	7	–	196
Provision for loan losses	(12)	28	78	34	(1)	127
Balance at June 30, 2021	$ 13,049	$ 2,946	$ 545	$ 813	$ 1	$ 17,354
Allowance on loans evaluated for impairment:						
Individually	$ –	$ 102	$ 76	$ –	$ –	$ 178
Collectively	13,011	2,403	307	821	1	16,543
Balance at June 30, 2022	$ 13,011	$ 2,505	$ 383	$ 821	$ 1	$ 16,721
Individually	$ –	$ 94	$ 25	$ –	$ –	$ 119
Collectively	13,525	2,829	374	864	1	17,593
Balance at December 31, 2021	$ 13,525	$ 2,923	$ 399	$ 864	$ 1	$ 17,712
Recorded investment in loans evaluated for impairment:						
Individually	$ 11,194	$ 3,786	$ 788	$ 138	$ –	$ 15,906
Collectively	1,615,888	296,713	37,589	102,586	162	2,052,938
Balance at June 30, 2022	$ 1,627,082	$ 300,499	$ 38,377	$ 102,724	$ 162	$ 2,068,844
Individually	$ 12,652	$ 4,393	$ 1,571	$ 197	$ –	$ 18,813
Collectively	1,561,165	324,841	41,920	100,297	169	2,028,392
Balance at December 31, 2021	$ 1,573,817	$ 329,234	$ 43,491	$ 100,494	$ 169	$ 2,047,205

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

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

	Three Months Ended June 30, 2022				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	$ 266	$ –	$ –	$ 266	
Farm-related business	101	–	–	101	
Total	$ 367	$ –	$ –	$ 367	
Post-modification:					
Production and intermediate-term	$ 266	$ –	$ –	$ 266	$ –
Farm-related business	105	–	–	105	–
Total	$ 371	$ –	$ –	$ 371	$ –

Outstanding Recorded Investment	Six Months Ended June 30, 2022 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 512	$ –	$ –	$ 512	
Production and intermediate-term	266	11	–	277	
Farm-related business	101	–	–	101	
Rural residential real estate	17	–	–	17	
Total	$ 896	$ 11	$ –	$ 907	
Post-modification:					
Real estate mortgage	$ 512	$ –	$ –	$ 512	$ –
Production and intermediate-term	266	11	–	277	–
Farm-related business	105	–	–	105	–
Rural residential real estate	17	–	–	17	–
Total	$ 900	$ 11	$ –	$ 911	$ –

Outstanding Recorded Investment	Three Months Ended June 30, 2021 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 1,130	$ –	$ 1,130	
Total	$ –	$ 1,130	$ –	$ 1,130	
Post-modification:					
Real estate mortgage	$ –	$ 1,130	$ –	$ 1,130	$ –
Total	$ –	$ 1,130	$ –	$ 1,130	$ –

Outstanding Recorded Investment	Six Months Ended June 30, 2021 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 347	$ 3,270	$ –	$ 3,617	
Production and intermediate-term	–	281	–	281	
Total	$ 347	$ 3,551	$ –	$ 3,898	
Post-modification:					
Real estate mortgage	$ 352	$ 3,270	$ –	$ 3,622	$ –
Production and intermediate-term	–	281	–	281	–
Total	$ 352	$ 3,551	$ –	$ 3,903	$ –

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 June 30, 2022	2021	Six Months Ended June 30, 2022	2021
Real estate mortgage	$ 344	$ 297	$ 456	$ 326
Production and intermediate-term	–	–	171	–
Total	$ 344	$ 297	$ 627	$ 326

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

	Total TDRs June 30, 2022	December 31, 2021	Nonaccrual TDRs June 30, 2022	December 31, 2021
Real estate mortgage	$ 8,989	$ 9,707	$ 3,494	$ 3,974
Production and intermediate-term	1,719	1,602	685	684
Farm-related business	110	3	3	3
Rural residential real estate	17	29	–	–
Total loans	$ 10,835	$ 11,341	$ 4,182	$ 4,661
Additional commitments to lend	$ –	$ –		

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At June 30, 2022 the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	June 30, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,654	$ –	$ (38)	$ 3,616	6.74%

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,756	$ 305	$ –	$ 4,061	6.66%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	June 30, 2022		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	3,654	3,616	6.74
Total	$ 3,654	$ 3,616	6.74%

All of these investments have contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. The Association had no investments that were in a continuous unrealized loss position at December 31, 2021.

	June 30, 2022			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 3,654	$ (38)	$ –	$ –

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

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 6.60 percent of the issued stock of the Bank as of June 30, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled $40.4 billion and shareholders' equity totaled $1.8 billion. The Bank's earnings were $216 million for the first six months of 2022. In addition, the Association held investments of $4,358 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Employee Benefit Plans:				
Balance at beginning of period	$ (1,804)	$ (687)	$ (1,934)	$ (693)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	130	6	260	12
Net current period other comprehensive income	130	6	260	12
Balance at end of period	$ (1,674)	$ (681)	$ (1,674)	$ (681)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	Three Months Ended June 30,		Six Months Ended June 30,		
	2022	**2021**	**2022**	**2021**	**Income Statement Line Item**
Defined Benefit Pension Plans:					
Periodic pension costs	$ (130)	$ (6)	$ (260)	$ (12)	See Note 7.
Net amounts reclassified	$ (130)	$ (6)	$ (260)	$ (12)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	June 30, 2022				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 2,149	$ 2,149	$ –	$ –	$ 2,149
Recurring Assets	$ 2,149	$ 2,149	$ –	$ –	$ 2,149
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 354	$ –	$ –	$ 354	$ 354
Other property owned	183	–	–	212	212
Nonrecurring Assets	$ 537	$ –	$ –	$ 566	$ 566
Other Financial Instruments					
Assets:					
Cash	$ 34	$ 34	$ –	$ –	$ 34
Investment securities, held-to-maturity	3,654	–	–	3,616	3,616
Loans	2,037,512	–	–	1,952,459	1,952,459
Other Financial Assets	$ 2,041,200	$ 34	$ –	$ 1,956,075	$ 1,956,109
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,632,156	$ –	$ –	$ 1,537,816	$ 1,537,816
Other Financial Liabilities	$ 1,632,156	$ –	$ –	$ 1,537,816	$ 1,537,816

	December 31, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 2,354	$ 2,354	$ –	$ –	$ 2,354
Recurring Assets	$ 2,354	$ 2,354	$ –	$ –	$ 2,354
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 335	$ –	$ –	$ 335	$ 335
Other property owned	215	–	–	253	253
Nonrecurring Assets	$ 550	$ –	$ –	$ 588	$ 588
Other Financial Instruments					
Assets:					
Cash	$ 689	$ 689	$ –	$ –	$ 689
Investment securities, held-to-maturity	3,756	–	–	4,061	4,061
Loans	2,017,860	–	–	2,028,185	2,028,185
Other Financial Assets	$ 2,022,305	$ 689	$ –	$ 2,032,246	$ 2,032,935
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,617,876	$ –	$ –	$ 1,610,164	$ 1,610,164
Other Financial Liabilities	$ 1,617,876	$ –	$ –	$ 1,610,164	$ 1,610,164

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.

Investment Securities
The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

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, 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
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk-adjusted discount rate
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 7 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Pension	$ 779	$ 1,238	$ 1,486	$ 2,488
401(k)	373	346	805	760
Other postretirement benefits	263	217	473	444
Total	$ 1,415	$ 1,801	$ 2,764	$ 3,692

Expenses in the above table are computed using allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2022.

Further details regarding employee benefit plans are contained in the 2021 Annual Report to Shareholders.

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for monetary 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. In June 2022, the Association resolved claims in the aggregate amount of approximately $1,600. The amounts were reflected as loss on other transactions and a corresponding liability.

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.

Note 9 — Merger Activity

On May 24, 2022, the Board of Directors of the Association and Carolina Farm Credit, ACA signed a letter of intent to merge the two Associations. The merger is subject to AgFirst, FCA, and shareholder approval. If approved by all required parties, the merger is expected to take effect upon the commencement of business on April 1, 2023.

Note 10 — Subsequent Events

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