Management's Discussion and Analysis

The following discussion summarizes the financial position and results of operations of American AgCredit, ACA and its subsidiaries (collectively "the Association") as of the third quarter of 2022. This commentary should be read with the accompanying consolidated financial statements and the related notes appearing in this report along with our 2021 Annual Report. The discussion includes significant known trends, commitments, events, or uncertainties that have impacted or are reasonably likely to impact our financial condition and results of operations. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of our Board of Directors.

Our annual and quarterly reports to shareholders are available on our website, www.agloan.com, or can be obtained free of charge by calling our corporate headquarters at (707) 545-1200. Additionally, the financial condition and results of operations of CoBank, ACB (CoBank), our funding bank, materially affect the risk associated with shareholder investments in American AgCredit. Shareholders of American AgCredit may obtain copies of CoBank's Quarterly or Annual Report to Shareholders free of charge by accessing CoBank's website, www.CoBank.com, calling (800) 542-8072, or mailing CoBank at 6340 S. Fiddlers Green Circle, Greenwood Village, CO 80111.

As a cooperative, the voting stock of American AgCredit is owned by the members we serve. Our territory extends across a diverse agricultural region that includes parts of California, Kansas, Oklahoma, Colorado, and New Mexico, as well as the states of Nevada and Hawaii.

Forward Looking Statements

Any forward-looking statements in this report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2021 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Merger Activity

On May 4, 2022, the Board of Directors of American AgCredit entered into a non-binding Letter of Intent to pursue a merger with Farm Credit of New Mexico, ACA. On October 26, 2022, the Boards of Directors of each Association approved the Agreement and Plan of Merger. The Association anticipates a merger date of July 1, 2023, or as soon as practicable thereafter, subject to receiving all required regulatory and shareholder approvals.

Economic Overview

The third quarter of 2022 continues a trend of interest rate increases, labor pressures, price inflation, and investment market volatility. Select agricultural commodities' prices continue a downward trend which began around the midpoint of 2022 with some prices reaching pre-pandemic lows, while others have stabilized or improved. While the retail price of gasoline reached a high during the year of approximately $5.03 per gallon according to the U.S. Energy Information Administration, it retreated to a lower $3.82 per gallon in September 2022. California prices remain highly elevated at $5.38 per gallon for September 2022, with some pumps in Northern California's wine country exceeding $6.00 per gallon. Consistent inflationary pressures have resulted in the Federal Open Market Committee (FOMC) making several consecutive 75 basis point federal funds rate hikes in 2022. The Federal Funds Rate was 3.25% as of September 30 and total year-to-date increases amount to 300 basis points through September 2022. FOMC projections indicate increases will continue into 2023. According to the Freddie Mac Primary Mortgage Market Survey, the average rate on a 30-year fixed-rate mortgage increased from approximately 3.22% at the beginning of the year to 6.70% as of the end of the 3rd quarter, representing a relative increase of nearly 110%.

The U.S. dollar remains at multidecade highs as compared to other foreign currencies, especially the Japanese yen. While this may result in domestic inflationary pressures easing as imports become cheaper to U.S. purchasers, agricultural exports may be severely hampered alongside elevated shipping and fuel costs. Equity markets continued to struggle, with the S&P 500 down 25% year-to-date. The consumer price index (CPI) increased 8.2% in September on an annualized basis. While the CPI has retreated somewhat from a June high, core inflation, which excludes more volatile food and energy increases, had its largest increase since August 1982 to 6.6% on an annualized basis in September, as compared to 6.3% in August. Core inflation is seen by some economists as a better indicator of underlying price pressures,

Management's Discussion and Analysis

and persistent core inflation will likely increase the duration and magnitude of FOMC rate increases. While the GDP contracted slightly through the first half of 2022, it grew 2.6% in the third quarter on an annualized basis. While the trade deficit was narrowed and government outlays increased, there was also a broader decline in private investment.

Farm input prices remain historically elevated overall and continue to increase, which will continue to squeeze margins if agricultural commodity prices also fail to increase. Amid tighter margins, farmland values have remained stable. The strong US dollar could have varying impacts on agricultural exports depending on the specific commodity. Those which are considered discretionary purchases, such as mid-market wines and tree nuts, may see lowered exports as those commodities become relatively more expensive to foreign buyers. Non-discretionary commodities, such as grains and other foodstuffs, and ultra-luxury products, such as high-end wine, may see little to no demand reduction. Supply chain pressures continue to impact agriculture, although there has been recent collaboration between transportation agencies, governmental entities, and agricultural companies which has resulted in marginal improvement in shipments. The conflict in Ukraine continues to impact the wheat industry. The unemployment rate ended the quarter at 3.5%, although annualized wage increases and seasonally adjusted job openings both fell from August to September. While unemployment continues to be historically low, FOMC will likely continue to raise rates alongside generally softening employment metrics.

Drought conditions persist across the Association's territory. Nearly all of California, Nevada, and western Kansas are in severe drought or worse conditions. Conditions in Colorado have improved with a portion of the state not in any drought threat. The prolonged and persistent nature of the drought has lowered crop yields and damaged range conditions in impacted areas. Producers generally expect total output from crops and livestock to be lower in 2022. Additionally, the drought has increased the cost of water for irrigated crop and livestock producers.

Commodity Review and Outlook

The Association's commodity portfolio remains well-diversified. Wine grapes and wine and tree fruits and nuts lead our commodity portfolio at 16.57% and 14.16%, respectively, followed by field crops at 13.89%, dairies and dairy products at 10.79%, beef at 10.19%, and forest products at 7.52%. The top six commodities make up 73.12% of the total portfolio with the remaining 26.88% spread over sixteen additional categories, including an "Other" category. The bulk of the Association's wine portfolio continues to be centered in the super- and ultra-premium segments of the wine market. Tree fruits and nuts consists primarily of almonds, walnuts, and other orchards in California's Central Valley and Hawaii. Field crops consist primarily of wheat, corn, soybeans, alfalfa, sorghum, and other grains.

Following is a summary of economic conditions among the Association's significant commodities:

- **Wine grapes and wine:** Wine sales, on an inflation adjusted basis, remain above both year ago levels and recent averages. This is despite headwinds of the past several years, including pandemic attributed tasting room shutdowns, supply chain bottlenecks, wildfire damage, and growing competition from alternative alcohols. Many wineries were also able to price up their products alongside general inflation trends. For example, the average price of table wine sold at retail stores has recently trended near the 'all alcohol' measure from the Bureau of Labor Statistics. The recent increases are likely a result of stable consumer demand, smaller wine inventories, and general inflation trends. Prices for wine grapes, both contracted and spot, have also been reportedly strong due to consecutive smaller harvests in 2020 and 2021, and an expected light harvest in 2022 because of drought conditions. The lowered supply of grapes has improved prices for the bulk wine market as wineries look to replace lost inventory. Grape prices should continue to remain strong in the near-term amid short supply. Wineries are faced with continued wage inflation and uncertain labor availability. Producers have reported continued trouble sourcing inputs such as barrels and glass. Transportation continues to be difficult as trucking costs have significantly increased and are more difficult to pass on to customers.

- **Tree fruits and nuts:** Total current-year production of some tree fruits and nuts, including almonds and walnuts, are expected to be low. Continued drought has hampered many commodities' yields. While a smaller overall harvest may reduce total inventory, prices remain reduced where there are large amounts of uncommitted inventory and supply chain uncertainty. Dampened yields and prices are expected to negatively impact gross receipts. Almond shipments finished the 2021/2022 marketing year 10% below the prior year. Slower shipments have left the industry with historically high uncommitted inventory. The large inventory is compounded by shipping issues and slower global growth, resulting in generally subdued almond prices. Walnut yields are expected to be slightly below average. The extreme heat in California is expected to hurt walnut meat quality, which could cut final payouts to farmers. Walnut prices remain lower because of supply chain constraints and the strong U.S. dollar. The 2022 estimate of California avocado production was recently lowered, and prices are expected to remain strong while demand continues to outpace domestic production.

- **Field crops:** Most crop prices have marginally increased as of the end of September but remain below recent highs observed in June. Input costs remain elevated, and producers generally expect breakeven to positive profit margins in 2022. Producers report an expectation that corn, soybean, milo, and cotton yields will suffer the most out of all field crops due to persistent drought. Wheat planting has also been slow as many producers were waiting for measurable rain to plant. A difficult 2023 could be ahead as input prices are expected to remain elevated amid stabilized crop prices. The United States Department of Agriculture (USDA) recently lowered corn production estimates alongside an expectation of decreased total expected consumption. As production declined by a greater magnitude than consumption, ending stocks declined and prices increased. Wheat planting conditions have been less than optimal due to persistent drought; however, total acres are expected to be higher as prices are favorable and input costs are normally less than other crops. The soybean market remains robust as production fell more than consumption, resulting in a decline of ending stocks and a stabilization of average prices from the decline experienced earlier in the year. Nationwide domestic cotton production estimates have been recently increased by the USDA, resulting in a decrease to prices. Conditions in Ukraine continue to impact the wheat and vegetable oil markets.

- **Dairy:** Profit margins in the second half of 2022 are expected to be much weaker in the dairy sector as rising input costs have significantly increased breakeven points. Most milk prices, including Class III and IV milk have experienced notable declines since the very high prices observed in June. While overall prices are historically elevated compared to long term averages, the recent decline in milk futures prices also corresponds to declines in spot market prices for cheese and nonfat dry milk. However, the butter spot market remains elevated and could help support uniform milk prices. As retail prices for dairy products overall remain strong, there is concern that an increasing economic slowness could reduce retail demand and prices. The supply of milk has also increased from a recent dip, causing a portion of the decline in the futures price. Notably, much of the supply increase was due to increased yields, particularly in California, as the total dairy herd did not increase similarly. Stronger yields helped to offset the decline in milk prices. Nearly all feed products have sharply increased in price. Producers expect breakeven to slight losses in the fourth quarter as a result. Dairy cow values remain high due to generally strong profit margins in the first half of 2022 and the lack of available quality cows.

- **Beef:** The beef industry has struggled through a difficult third quarter. Drought is driving beef cow herd liquidation at the most aggressive pace since 1984 and beef cow slaughter is up double digits compared to year ago levels. Drought continues to force feeder cattle and calves from rangelands into feedlots and is expected to bolster fed cattle and beef supplies through the first half of 2023. Calf crop totals will be further reduced by drought stress at the cow herd levels, declining body condition, and lowered reproductive efficiency. Cow-calf producers in drought areas are likely to produce a higher percentage of drought stressed calves that may have a higher likelihood to be poorer performers from both a growth and quality grade perspective. Despite higher feeding costs, feedlot demand for replacement cattle remains robust, resulting in higher fed cattle breakeven prices. Retail consumers continue to trade down in beef trimmings, and ground beef prices continue to lend solid support for chuck and round prime cuts and have taken away some of the sting of cow-calf producer herd liquidation decisions. Disease in foreign markets, such as Foot-and-Mouth Disease and Lumpy Skin Disease could impact international markets and U.S. exports.

- **Forest products:** The economic backdrop for the forest products industry has significantly tightened. Demand for forest products will likely decline in the near future. However, the industry is coming off several very profitable years and should be able to continue operating profitably. Housing starts have declined about 5.5% from the January estimate as higher mortgage rates and higher building costs have weighed on prospective builders. Despite a slower residential market, prices for construction materials such as lumber and panels remain well above pre-Covid levels, primarily due to low supplies. Prices for pulp and fiber also remain very robust. In August, the average price of bleached hardwood was 23% above year ago levels, and the average price for copy paper

Management's Discussion and Analysis

was 24% above year ago levels. Demand for tissue products also remains strong. The industry generally expects that demand and prices will moderate with slower economic growth. Most forest product companies have been careful to manage stocks, capital spending, and other controllable variables. Overall, the forest product industry remains in excellent financial condition and has so far managed the economic cycle very well. The industry seems prepared for slowness and should be able to manage the downturn of the cycle very well.

Loan Portfolio

The total loan and lease balance was $16.9 billion at September 30, 2022, an increase of $1.0 billion from $15.9 billion at December 31, 2021. The increase was caused both by draws on existing facilities and new originations, partially offset by anticipated seasonal loan repayments. On a year-over-year basis, loans increased by $1.9 billion when compared to September 30, 2021, resulting in a growth rate of 12.42%. Credit quality remains strong at 97.37% as of September 30, 2022, compared to 97.79% as of December 31, 2021. Credit quality is a measurement of loans classified as either "Acceptable" or "Other Assets Especially Mentioned" divided by total loans under Farm Credit Administration's Uniform Classification System.

In addition to the $16.9 billion of loans and leases reported on our balance sheet, we serviced an additional $6.2 billion of loans for other institutions as of September 30, 2022.

Nonearning Assets

Nonaccrual loans increased by $38.3 million to $104.7 million at September 30, 2022, compared to $66.4 million at December 31, 2021. The change in nonaccrual loans was primarily due to transfers to nonaccrual status and disbursements on nonaccrual loans of $67.9 million, offset by $18.8 million year-to-date repayments on nonaccrual loans, charge-offs of nonaccrual loans of $2.7 million, and loans reinstated to accrual status of $8.1 million. Nonaccrual loans represented 0.61% of total loans at the end of September 30, 2022, compared to 0.36% at September 30, 2021, and 0.42% at December 31, 2021.

Allowance for Credit Losses

The allowance for credit losses is composed of the allowance for loan losses (ALL) and the reserve for unfunded commitments. The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. The appropriate level of allowance for loan losses is determined based on periodic evaluation of factors such as loan loss history, portfolio quality, estimated collateral values, and current economic and environmental conditions. Total allowance for credit losses was $46.6 million at September 30, 2022, which included a $42.6 million allowance for loan losses and a $4.0 million reserve for unfunded commitments.

CoBank Investment and Patronage

Effective January 1, 2021, CoBank increased the target patronage for association direct note balances to 45 basis points, from 39 basis points. In addition, the loan base period used for determining the required stock investment in CoBank for affiliated associations was changed to a five-year trailing average from a one-year average. These changes were effective beginning in 2021 for patronage distributions and stock retirements starting in March 2022. As a result of the new capital plans, CoBank retired $21.2 million of the Association's stock investment in March 2022.

Financial Condition and Results of Operations

Net income for the nine months ended September 30, 2022, was $273.7 million compared to $263.6 million for the same period last year, an increase of $10.1 million. The change in net income was primarily due to the following reasons:

- Net interest income increased by $38.3 million year-over-year due to growth in accrual loan volume, offset by a slightly lower net interest margin. The Association's weighted average interest rate on interest-bearing liabilities was 2.37% and 0.69% as of September 30, 2022 and 2021, respectively.

Management's Discussion and Analysis

- The Association recorded a provision for credit losses $5.8 million through September 30, 2022, as compared to $5.3 million a year ago. This overall $0.6 million increase is primarily a result of the Association's increasing loan portfolio and some credit quality decline, offset by changes in assumptions used in the provision estimate recorded in March 2022.
- Non-interest income increased by $0.8 million year-over-year. The increase was primarily due to a $9.0 million increase in patronage income from Farm Credit institutions. This was partially offset by Paycheck Protection Program loan origination fees received in 2021, which are not applicable for 2022.
- FCSIC insurance, a component of noninterest operating expense, increased by $5.7 million when compared to September 2021. The FCSIC board voted to increase the insurance premium assessment rate on adjusted insured debt to 20 basis points retroactive for all of 2022, up from an original rate of 16 basis points.
- Overall, non-interest operating expenses increased by $28.4 million compared to the same period last year, primarily caused by the FCSIC rate increase and increases in salaries and benefits due to higher headcount in 2022.

The major components of change in net income are summarized as follows (dollars in thousands):

	For the Nine Months Ended		Increase (Decrease) in
	September 30, 2022	**September 30, 2021**	**Net Income**
Net interest income	$368,386	$330,066	$38,320
Provision for credit losses	(5,818)	(5,254)	(564)
Patronage income	84,759	75,783	8,976
Other income	17,292	25,465	(8,173)
Non-interest expenses	(190,889)	(162,450)	(28,439)
Provision for income taxes	(17)	(2)	(15)
Net income	$273,713	$263,608	$10,105

The following table shows the Association's year-to-date annualized return on average assets, return on equity, and net interest margin.

	September 30,	
	2022	**2021**
Return on average assets	2.12%	2.29%
Return on common equity	14.58%	15.15%
Return on total equity	13.02%	14.06%
Net interest margin	3.00%	3.03%

Liquidity and Funding

Liquidity is necessary to meet our financial obligations, such as paying our note with CoBank, funding loans and other commitments, and funding operations in a low-cost manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reductions, and liquidate nonearning assets. Our direct loan with CoBank, cash on hand, and borrower loan repayments provide adequate liquidity to fund our ongoing operations and other commitments. The Association has also received funding from preferred stock, subordinated debt, and funds held accounts.

Shareholders' Equity

The Association's capital position remains strong. Total shareholders' equity was $2.9 billion at the end of the third quarter, an increase of $263.4 million from $2.7 billion at December 31, 2021. The increase in capital is primarily the result of the Association's strong year-to-date net income. The Association was in compliance with all capital ratio requirements at September 30, 2022. The Association's strong earnings and capital position enable us to effectively serve our mission and our customers and support our ability to maintain our cash patronage distribution program.

Certification

The undersigned certify that they have reviewed this report and that it has been prepared in accordance with all applicable statutory and/or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of his knowledge and belief.

Gary Harshberger Chairman	Curt Hudnutt Chief Executive Officer	Vern Zander Chief Financial Officer

November 9, 2022

Consolidated Statements of Condition *(dollars in thousands)*

	September 30, 2022	December 31, 2021
	(Unaudited)	*(Audited)*
ASSETS		
Loans	$16,938,622	$15,934,730
Less: allowance for loan losses	(42,639)	(37,515)
Net loans	16,895,983	15,897,215
Cash	28,095	7,946
Accrued interest receivable	182,291	119,531
Investment in CoBank	456,667	475,173
Investment in AgDirect	26,263	23,090
Premises and equipment, net	112,274	115,113
Other property owned	4,160	4,160
Other assets	203,631	326,154
Total assets	**$17,909,364**	**$16,968,382**
LIABILITIES		
Notes payable to CoBank	$14,271,626	$13,571,210
Subordinated notes, net	197,716	197,591
Funds Held accounts	324,073	211,925
Accrued interest payable	45,819	22,844
Cash patronage distributions payable	-	162,855
Reserve for unfunded commitments	4,014	4,192
Other liabilities	139,218	134,310
Total liabilities	**14,982,466**	**14,304,927**
SHAREHOLDERS' EQUITY		
Preferred stock	300,000	300,000
Common stock and participation certificates	10,661	10,495
Additional paid-in capital	677,110	677,110
Unallocated retained surplus	1,955,093	1,694,971
Accumulated other comprehensive loss	(15,966)	(19,121)
Total shareholders' equity	**2,926,898**	**2,663,455**
Total liabilities and shareholders' equity	**$17,909,364**	**$16,968,382**

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

Consolidated Statements of Comprehensive Income *(dollars in thousands)*

(Unaudited)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
INTEREST INCOME				
Loans	$209,015	$143,325	$530,151	$419,574
Total interest income	**209,015**	**143,325**	**530,151**	**419,574**
INTEREST EXPENSE				
Notes payable CoBank	76,101	28,767	153,556	86,119
Subordinated notes	1,729	1,729	5,187	2,104
Funds Held and other interest	1,378	530	3,022	1,285
Total interest expense	**79,208**	**31,026**	**161,765**	**89,508**
Net interest income	**129,807**	**112,299**	**368,386**	**330,066**
Provision for credit losses	(7,645)	(2,242)	(5,818)	(5,254)
Net interest income after provision for credit losses	**122,162**	**110,057**	**362,568**	**324,812**
NON-INTEREST INCOME				
Patronage income from CoBank	18,370	16,472	55,777	49,696
Patronage income from other Farm Credit institutions	7,689	7,581	26,628	24,490
Patronage income from AgDirect	857	583	2,354	1,597
Loan origination fees	1,823	7,330	6,576	14,526
Servicing fees and late charges	531	381	2,501	2,697
Financially related services	2,524	2,583	3,967	4,292
Miscellaneous	1,730	1,957	4,248	3,950
Total non-interest income	**33,524**	**36,887**	**102,051**	**101,248**
NON-INTEREST EXPENSES				
Salaries and benefits	42,888	37,895	114,739	101,274
Occupancy and equipment expense	2,797	2,671	7,905	7,858
Insurance fund premiums	6,758	4,620	19,776	14,092
Supervisory and examination expense	626	846	2,311	2,283
Other operating expenses	19,566	14,589	46,158	36,943
Total non-interest expenses	**72,635**	**60,621**	**190,889**	**162,450**
Income before income taxes	83,051	86,323	273,730	263,610
Provision for income taxes	-	-	(17)	(2)
Net income	**$83,051**	**$86,323**	**$273,713**	**$263,608**
COMPREHENSIVE INCOME				
Actuarial gain in retirement obligation	1,052	1,167	3,155	3,499
Total comprehensive income	**$84,103**	**$87,490**	**$276,868**	**$267,107**

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

Consolidated Statements of Changes in Shareholders' Equity *(dollars in thousands)*

For the Nine Months Ended September 30, 2021 and 2022

(Unaudited)	Common Stock and Participation Certificates	Preferred Stock	Additional Paid-in Capital	Unallocated Retained Surplus	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2020	**$10,212**	**$175,623**	**$683,656**	**$1,520,252**	**$(20,588)**	**$2,369,155**
Comprehensive income				263,608	3,499	267,107
Series A preferred stock issued		300,000				300,000
Stock/participation certificates issued	1,032	49,681				50,713
Stock/participation certificates retired	(788)	(225,575)				(226,363)
Preferred stock dividends		271		(4,251)		(3,980)
Adjustment to prior period patronage accrual				(5,255)		(5,255)
Issuance initial costs			(6,546)			(6,546)
Balance at September 30, 2021	**$10,456**	**$300,000**	**$677,110**	**$1,774,354**	**$(17,089)**	**$2,744,831**
Balance at December 31, 2021	**$10,495**	**$300,000**	**$677,110**	**$1,694,971**	**$(19,121)**	**$2,663,455**
Comprehensive income				273,713	3,155	276,868
Stock/participation certificates issued	823					823
Stock/participation certificates retired	(657)					(657)
Preferred stock dividends				(11,813)		(11,813)
Adjustment to prior period patronage accrual				(1,778)		(1,778.00)
Balance at September 30, 2022	**$10,661**	**$300,000**	**$677,110**	**$1,955,093**	**$(15,966)**	**$2,926,898**

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 AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of American AgCredit, ACA (Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2021, are contained in the 2021 Annual Report to Shareholders (2021 Annual Report). The financial statements were prepared under the oversight of the audit committee of the board of directors.

The accompanying unaudited third quarter 2022 financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods have been made. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2022. Descriptions of the significant accounting policies are included in the 2021 Annual Report. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Recently Adopted or Issued Accounting Pronouncements

In March 2022, the Financial Accounting Standards Board (FASB) issued an update entitled "Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures." The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. In addition to the TDR guidance, the update requires public business entities to disclose current period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments will be effective for the Association at the time of adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost, which reflects management's estimate of expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For entities that are not U.S. Securities and Exchange Commission filers, including this entity, this guidance becomes effective for interim and annual periods beginning after December 15, 2022. The Association intends to estimate losses over the life of the loan portfolio using a range of macroeconomic variables as well as the association's historical loss experience related to industries in its portfolio. The impact of adoption of the standard is expected to decrease the allowance for credit losses related to loans and unfunded commitments. This estimate will ultimately depend on the nature of the loan portfolio, final validation of models and methodologies, and management's judgments, including macroeconomic conditions and related forecasts at the adoption date of January 1, 2023.

Refer to Note 2 in our 2021 Annual Report for additional information on other accounting standards that have been issued but are not yet effective. The Association is evaluating the impact of adoption of these standards on its financial condition and results of operations.

Notes to the Consolidated Financial Statements *(continued)*

NOTE 2 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Components of loans in the Consolidated Statements of Condition are as follows:

	September 30, 2022		December 31, 2021	
	Amount	**Percentage**	**Amount**	**Percentage**
Real estate mortgage	$9,623,409	56.8%	$8,889,724	55.8%
Production and intermediate-term	3,286,720	19.5%	3,514,590	22.0%
Agribusiness	3,441,386	20.3%	2,960,834	18.6%
Rural infrastructure	515,466	3.0%	526,303	3.3%
Agricultural export finance	70,109	0.4%	41,554	0.3%
Rural residential real estate	1,532	0.0%	1,725	0.0%
Total loans	**$16,938,622**	**100.0%**	**$15,934,730**	**100.0%**

PARTICIPATION INTERESTS

The Association, in the normal course of business, purchases and sells participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. All loans sold to other parties are sold without recourse.

The following table presents information regarding participations purchased and sold at September 30, 2022. The Association had no participations purchased from or sold to non-Farm Credit institutions at September 30, 2022.

	Other Farm Credit Institutions	
	Participations	
	Purchased	**Sold**
Real estate mortgage	$659,713	$2,096,474
Production and intermediate-term	808,387	1,053,052
Agribusiness	1,891,087	3,007,802
Rural infrastructure	483,985	60,645
Agricultural export finance	70,109	-
Total	**$3,913,281**	**$6,217,973**

Notes to the Consolidated Financial Statements *(continued)*

CREDIT QUALITY

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- **Acceptable:** Assets are expected to be fully collectible and represent the highest quality,
- **Other Assets Especially Mentioned (OAEM):** Assets are currently collectible but exhibit some potential weakness,
- **Substandard:** Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- **Doubtful:** Assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- **Loss:** Assets are considered uncollectible.

The determination of the allowance for loan losses is based on estimates that are susceptible to changes in the economic environment and market conditions, and is based on the Association's past loss experience, known and inherent risks in the portfolio, the estimated value of the underlying collateral, and current economic conditions. Management believes that as of September 30, 2022, the allowance for loan losses is adequate based on information currently available.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type:

	As of September 30, 2022						
	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Real estate mortgage	$9,366,265	96.0%	$188,264	1.9%	$206,022	2.1%	$9,760,551
Production and intermediate-term	3,111,729	93.8%	90,275	2.8%	113,925	3.4%	3,315,929
Agribusiness	3,307,476	95.7%	19,182	0.5%	130,007	3.8%	3,456,665
Rural infrastructure	515,961	100.0%	-	0.0%	-	0.0%	515,961
Rural residential real estate	1,475	95.4%	-	0.0%	71	4.6%	1,546
Agricultural export finance	70,261	100.0%	-	0.0%	-	0.0%	70,261
Total	**$16,373,167**	**95.6%**	**$297,721**	**1.8%**	**$450,025**	**2.6%**	**$17,120,913**

	As of December 31, 2021						
	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Real estate mortgage	$8,649,729	96.3%	$148,024	1.7%	$180,361	2.0%	$8,978,114
Production and intermediate-term	3,315,972	93.8%	114,006	3.2%	106,289	3.0%	3,536,267
Agribusiness	2,886,697	97.2%	15,597	0.5%	67,446	2.3%	2,969,740
Rural infrastructure	526,566	100.0%	-	0.0%	-	0.0%	526,566
Rural residential real estate	1,632	94.3%	-	0.0%	99	5.7%	1,731
Agricultural export finance	41,843	100.0%	-	0.0%	-	0.0%	41,843
Total	**$15,422,439**	**96.1%**	**$277,627**	**1.7%**	**$354,195**	**2.2%**	**$16,054,261**

Notes to the Consolidated Financial Statements *(continued)*

IMPAIRED ASSETS

Impaired assets (including related accrued interest) are as follows:

	September 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	$62,477	$39,126
Production and intermediate-term	24,632	13,913
Agribusiness	17,562	13,298
Rural residential real estate	71	99
Total nonaccrual loans	**104,742**	**66,436**
Accruing restructured loans:		
Real estate mortgage	8,867	9,577
Production and intermediate-term	14	16
Agribusiness	1,825	-
Total accruing restructured loans	**10,706**	**9,593**
Accruing loans > 90 days past due:		
Real estate mortgage	-	658
Total accruing loans > 90 days past due	**-**	**658**
Total impaired loans	**115,448**	**76,687**
Other property owned	4,160	4,160
Total impaired assets	**$119,608**	**$80,847**

Additional impaired loan information is as follows:

	At September 30, 2022			For the Nine Months Ended September 30, 2022	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans:					
with a related allowance for credit losses	$44,897	$45,689	$5,564	$7,156	$4
with no related allowance for credit losses	70,551	137,351	-	87,432	3,211
Total	**$115,448**	**$183,040**	**$5,564**	**$94,588**	**$3,215**

	At September 30, 2021			For the Nine Months Ended September 30, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans:					
with a related allowance for credit losses	$8,708	$10,670	$2,830	$5,447	$0
with no related allowance for credit losses	57,894	80,530	-	93,347	2,988
Total	**$66,602**	**$91,200**	**$2,830**	**$98,794**	**$2,988**

Notes to the Consolidated Financial Statements *(continued)*

DELINQUENCY

The following tables provide an age analysis of past due loans (including accrued interest).

September 30, 2022	30-89 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	$3,275	$4,089	$7,364	$9,753,187	$9,760,551
Production and intermediate-term	3,018	759	3,777	3,312,152	3,315,929
Agribusiness	3,485	-	3,485	3,453,180	3,456,665
Rural infrastructure	-	-	-	515,961	515,961
Rural residential real estate	-	-	-	1,546	1,546
Agricultural export finance	-	-	-	70,261	70,261
Total	**$9,778**	**$4,848**	**$14,626**	**$17,106,287**	**$17,120,913**

December 31, 2021	30-89 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	$12,999	$8,784	$21,783	$8,956,331	$8,978,114
Production and intermediate-term	5,524	2,937	8,461	3,527,806	3,536,267
Agribusiness	50	-	50	2,969,690	2,969,740
Rural infrastructure	-	-	-	526,566	526,566
Rural residential real estate	1	17	18	1,713	1,731
Agricultural export finance	-	-	-	41,843	41,843
Total	**$18,574**	**$11,738**	**$30,312**	**$16,023,949**	**$16,054,261**

Notes to the Consolidated Financial Statements *(continued)*

TROUBLED DEBT RESTRUCTURINGS

A restructuring of debt constitutes a troubled debt restructuring (TDR) if the creditor for economic reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

The following table presents additional information regarding TDRs, whether accrual or non-accrual, that occurred during the first nine months of 2022. The Association had no new TDRs in the first nine months of 2021.

	For the Nine Months Ended September 30, 2022	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$539	$539
Production and intermediate-term	351	351
Total	**$890**	**$890**

*Pre-modification represents the recorded investment prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable, increased or decreased by applicable accrued and unamortized premium, discount, finance charges, or acquisition costs, and may also reflect a previous direct write-down of the investment.

In the allowance for loan loss analysis, TDR loans are individually evaluated, and a specific allowance is established based on the likelihood the current events will result in an anticipated loss on the individual loans.

The following table provides information on outstanding principal balance of loans restructured in TDR at period-end. These loans are included as impaired loans in the impaired loan table at September 30, 2022:

	TDRs in Accrual Status		TDRs in Nonaccrual Status		Total TDRs	
	Sep. 30, 2022	**Dec. 31, 2021**	**Sep. 30, 2022**	**Dec. 31, 2021**	**Sep. 30, 2022**	**Dec. 31, 2021**
Real estate mortgage	$10,669	$9,539	$996	$2,403	$11,665	$11,942
Production and intermediate-term	13	15	1,332	1,094	1,345	1,109
Total	**$10,682**	**$9,554**	**$2,328**	**$3,497**	**$13,010**	**$13,051**

At September 30, 2022, the Association had no additional commitments to lend to borrowers whose loans have been modified in TDRs.

Notes to the Consolidated Financial Statements *(continued)*

ALLOWANCE FOR LOAN LOSSES

A summary of changes in the allowance for loan losses and period-end recorded investment in loans is as follows:

	Allowance for Loan Losses			Recorded Investments in Loans Outstanding		
	Balance at Sep. 30, 2022	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	**Balance at Sep. 30, 2022**	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$11,499	$64	$11,435	$9,760,552	$71,343	$9,689,209
Production and intermediate-term	13,533	1,453	12,080	3,315,928	24,646	3,291,282
Agribusiness	17,082	4,047	13,035	3,456,665	19,388	3,437,277
Rural infrastructure	439	-	439	515,961	-	515,961
Rural residential real estate	-	-	-	1,546	71	1,475
Agricultural export finance	86	-	86	70,261	-	70,261
Total	**$42,639**	**$5,564**	**$37,075**	**$17,120,913**	**$115,448**	**$17,005,465**

	Allowance for Loan Losses			Recorded Investments in Loans Outstanding		
	Balance at Dec. 31, 2021	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	**Balance at Dec. 31, 2021**	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$11,390	$823	$10,567	$8,978,114	$49,360	$8,928,754
Production and intermediate-term	15,955	455	15,500	3,536,267	13,929	3,522,338
Agribusiness	9,543	705	8,838	2,969,740	13,298	2,956,442
Rural infrastructure	526	-	526	526,566	-	526,566
Rural residential real estate	1	-	1	1,731	99	1,632
Agricultural export finance	100	-	100	41,843	-	41,843
Total	**$37,515**	**$1,983**	**$35,532**	**$16,054,261**	**$76,686**	**$15,977,575**

Notes to the Consolidated Financial Statements *(continued)*

A summary of the changes in the Allowance for Loan Losses is as follows:

	September 30, 2022	September 30, 2021
Allowance for Loan Losses		
Balance at beginning of year	$37,515	$33,211
Charge-offs	(2,660)	(6,323)
Recoveries	1,787	3,714
Provision for loan losses	5,997	5,580
Balance at end of quarter	**$42,639**	**$36,182**

A summary of the changes in the Reserve for Unfunded Commitments is as follows:

	September 30, 2022	September 30, 2021
Reserve for Unfunded Commitments		
Balance at beginning of year	$4,192	$4,482
Reversal of unfunded commitments	(178)	(326)
Balance at end of quarter	**$4,014**	**$4,156**

NOTE 3 – LEASES

The balance sheet effect of operating leases for office space, and finance leases for vehicles, are included in premises and equipment and other liabilities on the balance sheet. Right-of-use assets represent the Association's right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease.

Future minimum lease payments under non-cancellable leases as of September 30, 2022, were as follows:

	Operating Leases	Finance Leases	Total
2022 (excluding the nine months ended 9/30/22)	$195	$340	$535
2023	715	1,300	2,015
2024	633	967	1,600
2025	547	625	1,172
2026	329	-	329
Thereafter	1,393	-	1,393
Total lease payments	**3,812**	**3,232**	**7,044**
Less: interest	-	(226)	(226)
Total	**$3,812**	**$3,006**	**$6,818**

Right-of-use assets, net of accumulated amortization, amounted to $5.6 million for the period ended September 30, 2022.

NOTE 4 – SHAREHOLDERS' EQUITY

The table below shows the Association's regulatory capital requirements and ratios as of September 30, 2022. The Association exceeded all regulatory minimum capital requirements as of September 30, 2022, and December 31, 2021.

	Regulatory Minimums	Capital Conservation Buffer	Total	Sep. 30, 2022	Dec. 31, 2021
Risk-adjusted:					
Common Equity Tier 1 Capital	4.5%	2.5%	7.0%	**10.50%**	**10.69%**
Tier 1 Capital	6.0%	2.5%	8.5%	**12.04%**	**12.37%**
Total Capital	8.0%	2.5%	10.5%	**13.27%**	**13.71%**
Permanent Capital	7.0%	0.0%	7.0%	**13.31%**	**13.69%**
Non-risk-adjusted:					
Tier 1 Leverage	4.0%	1.0%	5.0%	**13.80%**	**14.10%**
URE and UREE Leverage	1.5%	0.0%	1.5%	**11.97%**	**13.36%**

On June 14, 2021, the Association issued $300 million of Series A non-cumulative perpetual preferred stock at $1,000 par value per share. The issuance carries an annual dividend rate of 5.25% payable quarterly until the First Reset Date of June 15, 2026, thereafter, the amount equal to the sum of the Five-Year Treasury Rate as of the most recent Reset Dividend Determination Date plus 4.50%. The issuance will be callable June 15, 2026, and quarterly thereafter.

The Series A preferred stock is junior upon liquidation or dissolution to any subordinated debt, existing and future debt obligations, and to any series of preferred stock issued in the future with priority rights. Series A preferred stock has a preference as to dividends and is senior upon liquidation or dissolution to outstanding Class C common stock, Class F participation certificates, and patronage equities.

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

Balance at December 31, 2021	Pension and Other Benefit Plans	Accumulated Other Comprehensive Loss
Other comprehensive loss before reclassifications	$(19,121)	$(19,121)
Amounts reclassified from accumulated other comprehensive loss	3,155	3,155
Net current period other comprehensive income	3,155	3,155
Balance at September 30, 2022	**$(15,966)**	**$(15,966)**

Balance at December 31, 2020	Pension and Other Benefit Plans	Accumulated Other Comprehensive Loss
Other comprehensive loss before reclassifications	$(20,588)	$(20,588)
Amounts reclassified from accumulated other comprehensive loss	3,499	3,499
Net current period other comprehensive income	3,499	3,499
Balance at September 30, 2021	**$(17,089)**	**$(17,089)**

Notes to the Consolidated Financial Statements *(continued)*

The following table represents reclassifications out of accumulated other comprehensive income (loss):

	For the Nine Months Ended		Location of Gain/(Loss) Recognized in Statement of Income
	Sept. 30, 2022	Sept. 30, 2021	
Pension and other benefit plans:			
Net actuarial gain	$3,155	$3,499	Salaries & Benefits
Total amounts reclassified	**$3,155**	**$3,499**	

NOTE 5 – SUBORDINATED NOTES

In June 2021, the Association issued $200 million of Subordinated Notes (Notes), due in 2036, which may be redeemed all or in part on any interest payment date on or after June 2031. The Notes bear a fixed interest rate of 3.375% per annum, payable semi-annually until June 15, 2031, at which point the rate changes to a floating rate equal to the benchmark rate, expected to be three-month term SOFR, plus a spread of 212 basis points through maturity date or the date of earlier redemption. The Notes are subordinate to all other creditor debt, including general creditors, and senior to all classes of stock. The Notes are not considered System debt and are not an obligation of, nor guaranteed by any System entity. Further, payments on the Notes are not insured by the FCSIC. The notes are presented net of unamortized issuance costs of approximately $2.5 million on the Consolidated Statements of Condition at September 30, 2022.

NOTE 6 – FAIR VALUE MEASUREMENTS

Accounting standards define fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2021 Annual Report.

Assets and liabilities measured at fair value for each of the fair value hierarchy values are summarized below:

	September 30, 2022		December 31, 2021	
	Fair Value Measurement Using		Fair Value Measurement Using	
	Level 1	Level 3	Level 1	Level 3
Measured at fair value on a recurring basis:				
Assets held in nonqualified benefits trusts	$27,464		$27,645	
Measured at fair value on a non-recurring basis:				
Loans		$39,333		$1,382
Other Property Owned		$4,160		$4,160

During the reporting periods presented, the Association recorded no transfers in or out of Levels 1, 2, or 3. The Association had no liabilities measured at fair value on a recurring basis for the periods presented.

Valuation Techniques: Accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Associations' assets and liabilities.

Notes to the Consolidated Financial Statements *(continued)*

Loans Evaluated for Impairment: For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases, it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned: Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of independent appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Assets Held in Nonqualified Benefits Trusts: Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

NOTE 7 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 9, 2022, which is the date the financial statements were available to be issued.