CAPITAL FARM CREDIT

PROUD MEMBER OF THE FARM CREDIT SYSTEM

Quarterly Report To Stockholders

For the Quarter Ended September 30, 2022

REPORT OF MANAGEMENT

The undersigned certify that this quarterly report has been reviewed and prepared 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.

Jeff Norte,
Chief Executive Officer

John Malazzo,
Chairman, Board of Directors

Sally Lawson,
Chief Financial Officer

November 9, 2022

Third Quarter 2022 Financial Report

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MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars in thousands)

The following commentary reviews the financial performance of Capital Farm Credit, ACA, referred to as the association, for the quarter ended September 30, 2022. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2021 Annual Report to Stockholders. The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder. The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA. The consolidated financial statements were prepared under the oversight of the association's audit committee.

The Texas economy is showing small signs of slowing, including a slight decline in job growth for the quarter from 5.6 percent to 4.9 percent, slowing manufacturing production to 2.4 percent and declining retail sales. On the whole, the Texas economy still remains strong and is outpacing the general U.S. economy. Drought conditions have improved across the state; however, the much-needed rain came too late for many fall crops including cotton and corn. Crop insurance has been a good safety net for many, allowing farmers and ranchers to pay down their lines of credit. The shrinking of livestock herds throughout Texas this year may come at a high cost as producers try to re-enter the market with climbing cattle prices. The Federal Open Market Committee (FOMC) has raised the short-term interest rate 1.5 percent in the third quarter in their continued effort to curb inflation. This along with historically high prices has reduced demand for Texas real estate. The association continues to grow, credit quality remains high, and the association is poised to finish the year with strong earnings.

Rating Agency Actions

Fitch Ratings Actions
On January 11, 2021, Fitch Ratings assigned the association an initial long-term issuer default ratings (IDRs) at "BBB" with a stable outlook. Fitch also assigned a rating of "BB-" for the association's noncumulative perpetual preferred stock. Fitch reaffirmed the association's "BBB" with a stable outlook rating on January 10, 2022.

S&P Global Rating Actions
On January 11, 2021, S&P assigned the association an initial long-term issuer default rating at "BBB" with a stable outlook. S&P Global Ratings also assigned a rating of "BB" for the association's noncumulative perpetual preferred stock. S&P reaffirmed the association's "BBB" with a stable outlook rating on December 23, 2021.

Patronage Refunds by Association

The board of directors approved a $233,769 patronage distribution for 2021. Of that amount, $108,069 of this distribution was paid in cash in March 2022, and $125,700 will be distributed in the form of nonqualified allocated equity, which means the owners of these distributions will not pay federal income taxes until the equities are retired. It is the board's intention with these allocations to assign ownership of the earnings of the association, allowing the stockholders to benefit more fully from the earnings of the association and to create a method to make future equity distributions in the form of cash. Though there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the association's capital position and determine if some cash retirements of these equities can be made. In 2020, the board of directors approved a $215,865 patronage distribution with cash patronage payable of $98,280 and $117,585 in nonqualified allocations. In March 2021, the association finalized the computation of these distributions, which resulted in an increase in cash patronage payable of $92 for an actual cash distribution of $98,372, which was paid in March 2021.

In September 2022, the board of directors approved a resolution to retire $59,747 in nonqualified allocated equities which is to be paid to the recipients in November 2022. The retirement was a distribution of the remaining earnings allocated in 2013.

Loan Portfolio

Total loans outstanding at September 30, 2022, including nonperforming loans, were $11,436,132 compared to $10,456,511 at December 31, 2021, reflecting an increase of $979,621, or approximately 9.4 percent, with increases in the real estate mortgage, farm-related business, energy, production and intermediate term, water and waste disposal, and communication industries. This rate of growth is a result of an attractive rate environment during the first quarter of 2022, significant increase in demand for rural properties for the first half of 2022, along with increased credit line utilization primarily in the commercial agribusiness sector of our portfolio. Loan growth began to slow down during the second quarter of 2022 as a result of increasing rates.

The association's portfolio quality remains strong. Despite an increase in high-risk assets, overall credit quality has improved slightly to 98.2 percent acceptable at September 30, 2022 compared to 97.9 percent at December 31, 2021. Substandard loans decreased from

0.9 percent at December 31, 2021 to 0.8 percent at September 30, 2022, and other assets especially mentioned decreased from 1.2 percent at December 31, 2021 to 1.0 percent at September 30, 2022. The association recorded $541 in recoveries and $314 in charge-offs for the nine months ended September 30 2022, and $318 in recoveries and $332 in charge-offs for the same period in 2021. The association's allowance for loan losses was 0.2 percent of total loans outstanding as of September 30, 2022, and December 31, 2021.

Risk Exposure

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The association's high-risk assets increased by 29.6 percent in the nine months of 2022 primarily as a result of a large credit being downgraded to nonaccrual during the year. The increase occurred in the areas of nonaccrual and formally restructured loans. The following table summarizes the association's components and trends of high-risk assets:

	September 30, 2022	%	December 31, 2021	%
Nonaccrual loans	**$ 53,042**	**84.3**	$ 38,111	78.5
Loans 90 days past due and still accruing interest	**14**	**0.0**	736	1.5
Formally restructured loans	**9,549**	**15.2**	8,804	18.1
Other property owned, net	**337**	**0.5**	927	1.9
Total	**$ 62,942**	**100.0**	$ 48,578	100.0

Nonaccrual loans increased $14,931 during the nine months ended September 30, 2022, with increases in the real estate mortgage, lease receivables and production and intermediate-term, offset by decreases in the energy, farm-related business and rural residential real estate industries. Nonaccrual loans were 0.5 percent of total loans outstanding at September 30, 2022, compared to 0.4 percent at December 31, 2021.

Loans that are 90 or more days past due and still accruing interest decreased $722 in the nine months ended September 30, 2022 in the production and intermediate-term industry offset by an increase in real estate mortgage. These loans have a documented plan that details how and when the amount owed will be paid.

Formally restructured accrual loans increased $745 during the nine months of 2022. Most of these restructurings have been to extend the repayment terms for customers who were significantly affected by lower commodity prices. The association is cooperating with distressed borrowers to help them work through temporary repayment problems.

Other property owned decreased $590 during the nine months of 2022. The association is actively working with real estate professionals to ensure properties are accurately valued on the association's books and that proactive marketing activities are in place.

Management also continues to routinely evaluate and monitor counterparty and collateral risks in an effort to avoid concentrations that could result in excess exposure to a single counterparty or type of collateral. The loan portfolio management practices that are in place have been designed to ensure loans and industries with actual or potential problems are promptly identified, monitored and addressed in a manner that allows the lending staff to work with distressed customers and industries through periods of adversity.

Results of Operations

The association had net income of $207,171 and $67,806 for the nine and three months ended September 30, 2022, respectively, compared to net income of $193,155 and $62,512 for the same periods in 2021, reflecting an increase of $14,016 and $5,293 or 7.3 and 8.5 percent, respectively. The increase in net income was primarily the result of an increase in interest income of $73,723 or 22.9 percent, an increase in noninterest income of $6,736 or 10.9 percent, partially offset by an increase in interest expense of $41,226 or 35.8 percent, an increase in noninterest expenses of $14,099 or 16.9 percent, and a provision for loan losses of $3,129 compared to a reversal of provision of $8,043 in the prior year, for the nine month period ended September 30, 2022. The increase in net income for the three month period ended September 30, 2022, was primarily attributable to an increase in interest income of $32,792 or 29.5 percent, an increase in noninterest income of $2,553 or 13.1 percent, offset by a provision of $4,017 compared to a reversal of provision of $138 in the prior year, an increase in interest expense of $22,111 or 55.4 percent and an increase in noninterest expense of $3,834 or 13.5 percent compared to the same period of 2021.

Net interest income was $238,767 and $82,009 for the nine and three months ended September 30, 2022, respectively, compared to $206,270 and $71,328 for the same periods in 2021, reflecting increases of $32,497 or 15.8 and $10,681 or 15.0 percent, respectively. Interest income for the nine and three months ended September 30, 2022, increased by $73,723 and $32,792 or 22.9 and 29.5 percent from the same periods of 2021, respectively, primarily as a result of an increase in average earning assets of $1,829,301 for the nine month period ended September 30, 2022. Interest expense for the nine and three months ended September 30, 2022, increased by $41,226 and $22,111 or 35.8 and 55.4 percent, respectively, from the same periods of 2021 due to an increase in the direct note and an increase in interest rates.

The effects of changes in average volume and interest rates on net interest income in the nine months ended September 30, 2022, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the nine months ended September 30, 2022		For the nine months ended September 30, 2021	
	Average Balance	**Interest**	Average Balance	Interest
Accrual loans and investments	**$ 10,930,738**	**$ 395,219**	$ 9,101,437	$ 321,496
Interest-bearing liabilities	**9,407,856**	**156,452**	7,669,816	115,226
Impact of capital	**$ 1,522,882**		$ 1,431,621	
Net interest income		**$ 238,767**		$ 206,270

	Average Yield	Average Yield
Yield on loans	**4.83%**	4.72%
Cost of interest-bearing Liabilities	**2.22%**	2.01%
Net interest spread	**2.61%**	2.71%

	nine months ended September 30 2022 vs. 2021		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ 64,618**	**$ 9,105**	**$ 73,723**
Interest expense	**26,111**	**15,115**	**41,226**
Net interest income	**$ 38,507**	**$ (6,010)**	**$ 32,497**

The association's noninterest income for the nine and three months ended September 30, 2022 increased $6,736 and $2,553 or 10.9 and 13.1 percent, from the same periods in 2021. The increase in the nine months ended September 30, 2022, is primarily a result of an increase in patronage from the Bank of $9,509 or 22.3 percent, and increase in gain on sale of premises and equipment of $506 or 59.2 percent, offset by decrease in loans fees of $2,504 or 36.0 percent, a decrease in financially related services income of $585 or 59.8 percent, a decrease in gain on other property owned of $105 or 100.0 percent, and a decrease in other noninterest income of $85 or 0.8 percent compared to the same period of 2021. The increase in the three months ended September 30, 2022, is primarily a result of an increase in patronage from the Bank of $2,998 or 20.0 percent, and an increase in other noninterest income of $330 or 21.7 percent, offset by decreases in loan fees of $540 or 28.0 percent, a decrease of $33 or 8.6 percent in financially related services income, a decrease in gain on sale of premises of equipment of $163 or 29.4 percent, and a decrease in gain on other property owned of $39 or 100.0 percent as compared to the same period of 2021.

Noninterest expenses for the nine and three months ended September 30, 2022, increased by $14,099 and $3,834 or 16.9 or 13.5 percent, respectively, from the same periods of 2021. The increase in the nine month period is driven by increases in almost every category of noninterest expenses as a result of an increase in headcount and loan growth, offset by decreases in data processing of $55 or 3.8 percent and a decrease in other expenses of $181 or 16.7 percent, from the same period of 2021. The increase in the three month period is driven by increases in the insurance fund premium of $1,583 or 53.1 percent as a result of an increased rate and an increase in loan volume, an increase in salaries and employee benefits of $985 or 5.2 percent, an increase in public and member relations of $160 or 33.5 percent, an increase in travel of $60 or 7.1 percent, and increase in purchased services of $198 or 26.4, an increase in supervisory and exam expense of $124 or 28.6 percent, an increase in business insurance expense of $1 or 25.0 percent, and increase in training of $673 or 334.8 percent, an increase in loss on other property owned of $197 or 100.0 percent, and an increase in director's expense of $63 or 30.6 percent, offset by decreases in occupancy and equipment of $9 or 0.6 percent, decrease in advertising of $13 or 1.4 percent, decrease in data processing of $10 or 2.2 percent, decrease in communications of $1 or 0.4 percent, and a decrease in other expenses of $177 or 39.8 percent for the same period of 2021.

The association's return on average assets for the nine months ended September 30, 2022, was 2.5 percent compared to 2.7 percent for the same period in 2021. The association's return on average equity for the nine months ended September 30, 2022, was 16.0 percent, compared to 16.5 percent for the same period in 2021.

Liquidity and Funding Sources

The association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of System-wide obligations. The following schedule summarizes the association's borrowings.

	September 30, 2022	December 31, 2021
Note payable to the bank	**$9,819,224**	$8,873,812
Accrued interest on note payable	**21,442**	14,274
Total	**$9,840,667**	$8,888,086

The association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the association is a direct loan from the Bank. The outstanding balance of $9,819,224 as of September 30, 2022, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.8 percent at September 30, 2022. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank since December 31, 2021, is due to the association's increase in loan volume and the distribution of the 2021 patronage refund. The increase in accrued interest on the note payable is the result of the increase in the interest rate from 1.8 percent at December 31, 2021 to 2.8 percent at September 30, 2022 and an increase in the direct note. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $1,615,613 at September 30, 2022. The maximum amount the association may borrow from the Bank as of September 30, 2022, was $11,155,650 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2022. As borrower payments are received, they are applied to the association's note payable with the Bank.

Capital Resources and Regulatory Matters

The association's capital position increased by $139,990 or 8.6 percent at September 30, 2022, compared to December 31, 2021 primarily as a result of net earnings for the period offset by retired allocated equities and dividend payments. The association's debt as a percentage of members' equity was 5.64:1 as of September 30, 2022, compared to 5.58:1 percent as of December 31, 2021. Farm Credit Administration regulations require the association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio remains in effect, with some modifications to align with the new regulations. As of June 30, 2022, the association exceeded all regulatory capital requirements. For more information, see Note 5- "Members Equity" in the accompanying financial statements.

Significant Recent Accounting Pronouncements

Refer to Note 1 – "Organization and Significant Accounting Policies" in this quarterly report for disclosures of recent accounting pronouncements which may impact the association's consolidated financial position and results of operations and for critical accounting policies.

Relationship with the Farm Credit Bank of Texas

The association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2021 Annual Report of Capital Farm Credit more fully describe the association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank are also available on its website at *www.farmcreditbank.com.*

The association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Capital Farm Credit, ACA, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the association's quarterly and annual stockholder reports are also available on its website at *www.capitalfarmcredit.com* or can be requested by emailing *Javier.Lemus@capitalfarmcredit.com*.

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
ASSETS		
Loans	**11,436,132**	10,456,511
Less: Allowance for losses	**(26,354)**	(22,996)
Net Loans	**11,409,778**	10,433,515
Accrued interest receivable - loans	**80,828**	64,852
Investment - held-to-maturity	**1,549**	1,952
Accrued interest receivable - investments	**19**	24
Investment in and receivable from the Bank:		
Capital stock	**158,601**	159,199
Receivable	**56,686**	21,842
Investment in Rural Business Investment Company (RBIC)	**12,939**	12,225
Investments in other Farm Credit Institutions	**15,545**	15,131
Other property owned, net	**337**	927
Premises and equipment, net	**16,377**	13,768
Right of use asset - leases	**7,735**	8,840
Other assets	**19,108**	19,592
Total assets	**$ 11,779,502**	$ 10,751,867
LIABILITIES		
Note payable to the Bank	**$ 9,819,224**	$ 8,873,812
Advanced conditional payments	**14,362**	11,686
Accrued interest payable	**21,442**	14,274
Lease liabilities	**7,955**	9,051
Drafts outstanding	**682**	904
Patronage distributions payable	**59,754**	108,075
Unfunded post retirement medical obligations	**27,509**	27,286
Reserve for unfunded commitments	**355**	357
Other liabilities	**54,924**	73,117
Total liabilities	**10,006,207**	9,118,562
MEMBERS' EQUITY		
Capital stock and participation certificates	**28,528**	28,410
Preferred stock	**200,000**	200,000
Non-qualified allocated retained earnings	**743,400**	803,147
Unallocated retained earnings	**804,376**	604,705
Accumulated other comprehensive loss	**(3,009)**	(2,957)
Total members' equity	**1,773,295**	1,633,305
Total liabilities and members' equity	**$ 11,779,502**	$ 10,751,867

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)
(UNAUDITED)

	For the three month ended		For the nine months ended	
	September 30, 2022	**September 30, 2021**	**September 30, 2022**	**September 30, 2021**
Interest Income				
Loans	**$ 144,008**	$ 111,212	**$ 395,154**	$ 321,415
Investments	**21**	25	**65**	81
Total interest income	**144,029**	111,237	**395,219**	321,496
Interest Expense				
Note payable to the Bank	**62,020**	39,908	**156,443**	115,224
Advance conditional payments	**-**	1	**9**	2
Total interest expense	**62,020**	39,909	**156,452**	115,226
Net interest income	**82,009**	71,328	**238,767**	206,270
Provision for Loan Losses				
Provision (reversal) for loan losses	**4,017**	(138)	**3,129**	(8,043)
Net interest income after provision for losses	**77,992**	71,466	**235,638**	214,313
Noninterest Income				
Patronage income from the Bank	**18,022**	15,024	**52,147**	42,638
Loan fees	**1,386**	1,926	**4,461**	6,965
Financially related services income	**352**	385	**393**	978
Gain on sale of premises and equipment, net	**391**	554	**1,361**	855
Gain on other property owned, net	**-**	39	**-**	105
Other noninterest income	**1,852**	1,522	**10,454**	10,539
Total noninterest income	**22,003**	19,450	**68,816**	62,080
Noninterest Expense				
Salaries and employee benefits	**19,879**	18,894	**60,139**	53,976
Insurance Fund premium	**4,562**	2,979	**13,306**	8,518
Occupancy and equipment	**1,446**	1,455	**4,577**	4,550
Purchased services	**949**	751	**3,035**	2,564
Advertising	**933**	946	**2,856**	2,661
Public and member relations	**637**	477	**2,547**	1,886
Travel	**903**	843	**2,184**	2,046
Supervisory and exam expense	**558**	434	**1,673**	1,498
Training	**874**	201	**1,423**	347
Data processing	**444**	454	**1,381**	1,436
Business Insurance Expense	**5**	4	**1,253**	1,149
Communications	**265**	266	**873**	834
Director's expense	**269**	206	**815**	640
Loss on other property owned, net	**197**	-	**323**	-
Other noninterest expenses	**268**	445	**900**	1,081
Total noninterest expenses	**32,189**	28,355	**97,285**	83,186
Income before income tax	**67,806**	62,561	**207,169**	193,207
Provision for (benefit from) income tax	**-**	49	**(2)**	52
Net income	**$ 67,806**	$ 62,512	**$ 207,171**	$ 193,155
Other comprehensive (loss) income:				
Change in postretirement benefit plans	**(17)**	11	**(52)**	34
Income tax expense related items of other comprehensive income	**-**	-	**-**	-
Other comprehensive (loss) income, net of tax	**(17)**	11	**(52)**	34
COMPREHENSIVE INCOME	**$ 67,789**	$ 62,523	**$ 207,119**	$ 193,189

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(Dollars in thousands)
(UNAUDITED)

	Capital Stock/ Participation Certificates	**Preferred Stock**	**Retained Earnings**		**Accumulated Other Comprehensive Income (Loss)**	**Total Members' Equity**
			Non-qualified Allocated	**Unallocated**		
Balance at December 31, 2020	$ 27,043	$ -	$ 737,454	$ 590,617	$ (3,557)	$ 1,351,557
Net income	-	-	-	193,155	-	193,155
Other comprehensive income	-	-	-	-	34	34
Capital stock/participation certificates issued	5,026	-	-	-	-	5,026
Capital stock/participation certificates/ allocated equities retired	(3,843)	-	(60,000)	-	-	(63,843)
Preferred stock issued		200,000				200,000
Issuance cost on preferred stock				(4,701)		(4,701)
Preferred stock dividends				(6,556)		(6,556)
Change in patronage declared and paid	-	-	-	(92)	-	(92)
Balance at September 30, 2021	28,226	200,000	677,454	772,423	(3,523)	1,674,580
Net income	-	-	-	68,558	-	68,558
Other comprehensive income	-	-	-	-	566	566
Capital stock/participation certificates issued	1,481	-	-	-	-	1,481
Capital stock/participation certificates/ allocated equities retired	(1,297)	-	-	-	-	(1,297)
Preferred stock issued	-	-	-	-	-	-
Issuance cost on preferred stock	-	-	-	(6)	-	(6)
Preferred stock dividends	-	-	-	(2,500)	-	(2,500)
Patronage distributions declared:						
Cash	-	-	-	(108,069)	-	(108,069)
Nonqualifed allocations	-	-	125,700	(125,700)	-	-
Change in patronage declared and paid	-	-	(7)	(1)	-	(8)
Balance at December 31, 2021	28,410	200,000	803,147	604,705	(2,957)	1,633,305
Net income	-	-	-	207,171	-	207,171
Other comprehensive (loss)	-	-	-	-	(52)	(52)
Capital stock/participation certificates issued	4,170	-	-	-	-	4,170
Capital stock/participation certificates/ allocated equities retired	(4,052)	-	(59,747)	-	-	(63,799)
Preferred stock issued	-	-	-	-	-	-
Preferred stock dividends	-	-	-	(7,500)	-	(7,500)
Patronage distributions declared:						
Cash	-	-	-	-	-	-
Nonqualifed allocations	-	-	-	-	-	-
Change in patronage declared and paid	-	-	-	-	-	-
Balance at September 30, 2022	**$ 28,528**	**$ 200,000**	**$ 743,400**	**$ 804,376**	**$ (3,009)**	**$ 1,773,295**

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

CAPITAL FARM CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Capital Farm Credit, ACA including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively called the "association"), is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in 192 counties in the state of Texas. The association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act), to meet the needs of American agriculture.

The accompanying unaudited 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 to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. 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 to Stockholders. 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.

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. Credit losses relating to held-to-maturity securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, including the association, this guidance becomes effective for interim and annual reporting periods beginning after December 15, 2022. We continue to test and refine our current expected loss models.

The association intends to estimate losses over a three year forecast period using a range of macroeconomic variables and then revert to the association's historical loss experience over an extended period of time. The impact of adoption of the standard is expected to increase the allowance for credit losses related to loans and unfunded commitments by $3,000-$10,000. The increase in the allowance is primarily driven by the association's size of its long-term loan portfolio. This estimate will ultimately depend on the nature of the loan portfolio, final validation of models and methodologies, management's judgments, including macroeconomic conditions and related forecasts at the adoption date of January 1, 2023.

The association does not expect its held-to-maturity securities to be materially impacted by the adoption of this standard as a majority of the portfolio consists of U.S. Treasury and U.S. agency securities that inherently have an immaterial risk of loss.

NOTE 2 — INVESTMENTS:

Investments Held-to-Maturity

The association's held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

September 30, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 1,549	$ -	$ (81)	$ 1,468	5.13%	8.64

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 1,952	$ 49	$ -	$ 2,001	4.47%	2.69

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitments to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The association has not experienced any impairments of these securities. Farmer Mac guarantees the underlying mortgages, and the association has the ability and intent to hold these securities to maturity or pay-off and it is unlikely the association would be required to sell these securities. These AMBS have contractual weighted average maturities of 8.6 years as of September 30, 2022; however, expected maturities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Industry	**September 30 2022**	**%**	December 31 2021	%
Real estate mortgage	**$ 8,654,313**	**75.7**	$ 8,143,710	77.9
Production and intermediate term	**1,306,253**	**11.4**	1,149,515	11.0
Farm-related business	**1,027,529**	**9.0**	812,101	7.8
Communication	**172,203**	**1.5**	124,729	1.2
Energy	**132,597**	**1.1**	87,493	0.8
Rural residential real estate	**110,213**	**1.0**	116,927	1.1
Lease receivables	**18,891**	**0.2**	18,793	0.2
Water and waste disposal	**12,330**	**0.1**	1,366	0.0
Mission-related investments	**1,803**	**0.0**	1,877	0.0
Total	**$ 11,436,132**	**100.0**	$ 10,456,511	100.0

At September 30, 2022, the association held two transactions, which are reported as loans on the consolidated balance sheet totaling $1,803 and with $0 in remaining commitments extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

The association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against loans as presented on the balance sheet. The association held $90,437 and $111,205 in funds which were netted against the loan balance at September 30, 2022 and December 31, 2021, respectively. Unrestricted advance conditional payments are included in liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were $14,362 and $11,686 on the balance sheet at September 30, 2022, and December 31, 2021, respectively.

The association purchases or sells participation interests in loans with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding the balances of participations purchased and sold as of September 30, 2022:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	277,620	1,056,228	-	-	$ 277,620	$ 1,056,228
Production and Intermediate-term	605,306	1,010,170	1,495	-	606,801	1,010,170
Farm-related business	806,240	112,900	1,683	-	807,923	112,900
Energy	132,598	-	-	-	132,598	-
Communication	172,203	-	-	-	172,203	-
Lease receivables	18,891	-	-	-	18,891	-
Water and waste disposal	12,330	-	-	-	12,330	-
Mission-related investments	1,803	-	-	-	1,803	-
Total	$ 2,026,991	$ 2,179,298	$ 3,178	$ -	$ 2,030,169	$ 2,179,298

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	September 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	**$ 29,710**	$ 16,450
Production and intermediate-term	**13,082**	8,662
Farm-related business	**-**	2,005
Rural residential real estate	**154**	252
Energy	**8,799**	10,742
Lease receivable	**1,297**	-
Total nonaccrual loans	**$ 53,042**	$ 38,111
Accruing restructured loans:		
Real estate mortgage	**$ 4,403**	$ 5,147
Production and intermediate-term	**1,713**	1,936
Farm-related business	**1,739**	-
Mission-related investments	**1,850**	1,896
Total accruing restructured loans	**$ 9,705**	$ 8,979
Accruing loans 90 days or more past due:		
Real estate mortgage	**$ -**	$ -
Production and intermediate-term	**15**	785
Total accruing loans 90 days or more past due	**$ 15**	$ 785
Total nonperforming loans	**$ 62,762**	$ 47,875
Other property owned	**337**	927
Total nonperforming assets	**$ 63,099**	$ 48,802

One credit quality indicator utilized by the association is the FCA 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 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	December 31, 2021
Real estate mortgage		
Acceptable	**98.8%**	98.6%
OAEM	**0.7%**	0.9%
Substandard/doubtful	**0.5%**	0.5%
	100.0%	100.0%
Production and intermediate-term		
Acceptable	**97.2%**	96.8%
OAEM	**1.5%**	1.1%
Substandard/doubtful	**1.3%**	2.1%
	100.0%	100.0%
Farm-related business		
Acceptable	**94.0%**	94.1%
OAEM	**3.6%**	4.7%
Substandard/doubtful	**2.4%**	1.2%
	100.0%	100.0%
Rural residential real estate		
Acceptable	**98.9%**	98.8%
OAEM	**0.9%**	0.8%
Substandard/doubtful	**0.2%**	0.4%
	100.0%	100.0%
Energy		
Acceptable	**93.4%**	87.8%
OAEM	**-**	-
Substandard/doubtful	**6.6%**	12.2%
	100.0%	100.0%
Communication		
Acceptable	**100.0%**	100.0%
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0%	100.0%
Mission-related investments		
Acceptable	**100.0%**	100.0%
OAEM	-	-
Substandard/doubtful	-	-
	100.0%	100.0%
Lease receivables		
Acceptable	**93.1%**	94.1%
OAEM	-	-
Substandard/doubtful	**6.9%**	5.9%
	100.0%	100.0%
Water and waste disposal		
Acceptable	**100.0%**	100.0%
OAEM	-	-
Substandard/doubtful	**-**	-
	100.0%	100.0%
Total Loans		
Acceptable	**98.2%**	97.9%
OAEM	**1.0%**	1.2%
Substandard/doubtful	**0.8%**	0.9%
	100.0%	100.0%

There were no loans and related interest in the loss category.

The following table provides an age analysis of past due loans (including accrued interest) as of:

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**	**Loans > 90 Days and Accruing**
Real estate mortgage	**$ 52,338**	**$ 21,425**	**$ 73,763**	**$ 8,645,098**	**$ 8,718,861**	**$ -**
Production and intermediate-	**22,018**	**10,632**	**32,650**	**1,284,367**	**1,317,017**	**15**
Farm-related business	**5,764**	**-**	**5,764**	**1,025,857**	**1,031,621**	**-**
Rural residential real estate	**2,028**	**26**	**2,054**	**108,536**	**110,590**	**-**
Energy	**-**	**8,076**	**8,076**	**125,251**	**133,327**	**-**
Communication	**-**	**-**	**-**	**172,367**	**172,367**	**-**
Mission-related investments	**-**	**-**	**-**	**1,850**	**1,850**	**-**
Lease receivables	**295**	**321**	**616**	**18,371**	**18,987**	**-**
Water and waste disposal	**-**	**-**	**-**	**12,340**	**12,340**	**-**
Total	**$ 82,443**	**$ 40,480**	**$ 122,923**	**$ 11,394,037**	**$ 11,516,960**	**$ 15**

December 31, 2021	30-89 Days Past Due	90 Days or More	Total Past Due	Not Past Due or less than 30	Total Loans	Loans > 90 Days and Accruing
Real estate mortgage	$ 66,499	$ 5,969	$ 72,468	$ 8,126,322	$ 8,198,790	$ -
Production and intermediate-term	6,774	4,910	11,684	1,144,529	1,156,213	785
Farm-related business	408	-	408	813,956	814,364	-
Rural residential real estate	1,775	-	1,775	115,533	117,308	-
Energy	-	8,076	8,076	79,660	87,736	-
Communication	-	-	-	124,841	124,841	-
Mission-related investments	-	-	-	1,896	1,896	-
Lease receivables	-	-	-	18,849	18,849	-
Water and waste disposal	-	-	-	1,366	1,366	-
Total	$ 75,456	$ 18,955	$ 94,411	$ 10,426,952	$ 10,521,363	$ 785

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the association for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of September 30, 2022, the total recorded investment of troubled debt restructured loans was $16,518, including $6,969 classified as nonaccrual and $9,549 classified as accrual, with specific allowance for loan losses of $1,040. Commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $3 and $783 as of September 30, 2022 and at December 31, 2021, respectively.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the nine months ended September 30, 2022. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. There were no new restructured loans during the three months ended September 30, 2022 or 2021.

	2022		2021	
Nine months ended September 30:	**Pre-TDR Designation Balance**	**Post-TDR Designation Balance**	Pre-TDR Designation Balance	Post-TDR Designation Balance
Real estate mortgage	**$ -**	**$ -**	$ 3,515	$ 3,565
Production and intermediate-term	**299**	**299**	479	402
Total	**$ 299**	**$ 299**	$ 3,994	$ 3,967

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs recorded at the modification date for the nine and three months ended September 30, 2022.

The predominant form of concession granted for troubled debt restructuring includes extension of terms. Other types of modifications include principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The following table presents information regarding loans that met the accounting criteria as a troubled debt restructrings and that occurred within the previous 12 months and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

	Recorded Investment at September 30, 2022	Recorded Investment at September 30, 2021
TDR that subsequently defaulted:		
Real estate mortgage	**$ -**	$ 2,369
Production and intermediate-term	**-**	198
Total	**$ -**	$ 2,567

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. As a result of a restructure to an existing TDR loan, a reclassification of a loan purpose code was made for a loan from the energy industry to the farm-related business industry during the first quarter of 2022. These loans are included as impaired loans in the impaired loan table at:

	Loans Modified as TDRs		**TDRs in Nonaccrual Status***	
	September 30, 2022	December 31, 2021	**September 30, 2022**	December 31, 2021
Real estate mortgage	**$ 7,746**	$ 7,662	**$ 3,395**	$ 2,605
Production and intermediate-term	**5,240**	7,752	**3,574**	5,882
Mission related investments	**1,803**	1,877	**-**	-
Farm-related business	**1,729**	-	**-**	-
Energy	**-**	1,799	**-**	1,799
Total	**$ 16,518**	$ 19,090	**$ 6,969**	$ 10,286

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	At September 30, 2022			At December 31, 2021		
	Recorded Investment	**Unpaid Principal Balance**	**Related Specific Allowance**	Recorded Investment	Unpaid Principal Balance	Related Specific Allowance
Impaired loans with a related allowance for loan losses:						
Real estate mortgage	**$ 2,726**	**$ 2,722**	**$ 191**	$ 566	$ 564	$ 70
Production and intermediate-term	**3,685**	**3,697**	**1,025**	4,286	5,301	1,133
Farm-related business	**-**	**-**	**-**	2,005	2,005	368
Rural residential real estate	**26**	**46**	**1**	28	48	2
Energy	**8,799**	**8,805**	**2,160**	10,742	10,749	3,357
Mission-related investments	**-**	**-**	**-**	127	127	47
Total	**$ 15,236**	**$ 15,270**	**$ 3,377**	$ 17,754	$ 18,794	$ 4,977
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	**$ 31,334**	**$ 31,358**	**$ -**	$ 20,941	$ 20,934	$ -
Production and intermediate-term	**11,077**	**17,212**	**-**	6,982	13,101	-
Farm-related business	**1,729**	**3,341**	**-**	-	1,611	-
Rural residential real estate	**128**	**128**	**-**	224	250	-
Energy	**-**	**-**	**-**	-	-	-
Mission-related investments	**1,803**	**1,803**	**-**	1,750	1,750	-
Lease receivables	**1,297**	**1,297**	**-**	-	-	-
Total	**$ 47,368**	**$ 55,139**	**$ -**	$ 29,897	$ 37,646	$ -
Total impaired loans:						
Real estate mortgage	**$ 34,060**	**$ 34,080**	**$ 191**	$ 21,507	$ 21,498	$ 70
Production and intermediate-term	**14,762**	**20,909**	**1,025**	11,268	18,402	1,133
Farm-related business	**1,729**	**3,341**	**-**	2,005	3,616	368
Rural residential real estate	**154**	**174**	**1**	252	298	2
Energy	**8,799**	**8,805**	**2,160**	10,742	10,749	3,357
Mission-related investments	**1,803**	**1,803**	**-**	1,877	1,877	47
Lease receivables	**1,297**	**1,297**	**-**	-	-	-
Total	**$ 62,604**	**$ 70,409**	**$ 3,377**	$ 47,651	$ 56,440	$ 4,977

Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended September 30, 2022		For the Three Months Ended September 30, 2021		For the nine months ended September 30, 2022		For the nine months ended September 30, 2021	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:								
Real estate mortgage	**$ 2,792**	**$ -**	$ 215	$ -	**$ 2,038**	**$ -**	$ 194	$ -
Production and intermediate-term	**3,224**	**1**	5,593	5	**3,189**	**4**	5,754	28
Farm-related business	**-**	**-**	2,106	-	**1,272**	**-**	2,172	-
Rural residential real estate	**27**	**-**	31	-	**27**	**-**	31	-
Energy	**8,830**	**-**	10,896		**9,080**	**-**	7,262	87
Mission-related investments	**-**	**-**	127	3	**70**	**-**	532	8
Total	**$ 14,873**	**$ 1**	$ 18,968	$ 8	**$ 15,676**	**$ 4**	$ 15,945	$ 123
Impaired loans with no related allowance for loan losses:								
Real estate mortgage	**$ 32,542**	**$ 124**	$ 31,952	$ 323	**$ 26,170**	**$ 342**	$ 33,518	$ 946
Production and intermediate-term	**14,769**	**55**	12,877	77	**10,156**	**307**	13,404	215
Farm-related business	**1,729**	**21**	-	-	**1,345**	**38**	172	-
Rural residential real estate	**132**	**-**	162	10	**165**	**1**	189	19
Energy	**-**	**-**	4	-	**-**	**-**	9	-
Mission-related investments	**1,803**	**28**	1,752	27	**1,579**	**42**	1,379	82
Lease receivables	**1,341**	**-**	-	-	**792**	**34**	-	-
Total	**$ 52,316**	**$ 228**	$ 46,747	$ 437	**$ 40,207**	**$ 764**	$ 48,671	$ 1,262
Total impaired loans:								
Real estate mortgage	**$ 35,334**	**$ 124**	$ 32,167	$ 323	**$ 28,208**	**$ 342**	$ 33,712	$ 946
Production and intermediate-term	**17,993**	**56**	18,470	82	**13,345**	**311**	19,158	243
Farm-related business	**1,729**	**21**	2,106	-	**2,617**	**38**	2,344	-
Rural residential real estate	**159**	**-**	193	10	**192**	**1**	220	19
Energy	**8,830**	**-**	10,900	-	**9,080**	**-**	7,271	87
Mission-related investments	**1,803**	**28**	1,879	30	**1,649**	**42**	1,911	90
Lease receivables	**1,341**	**-**	-	-	**792**	**34**	-	-
Total	**$ 67,189**	**$ 229**	$ 65,715	$ 445	**$ 55,883**	**$ 768**	$ 64,616	$ 1,385

A summary of changes in the allowance for loan losses and the ending balance including accrued interest of loans:

	Real Estate Mortgage	Production and Intermediate Term	Farm related business	Rural Residential Real Estate	Energy and Water/Waste Disposal	Communication	Mission Related Investments	Lease Receivable	Total
Allowance for credit losses:									
Balance at June 30, 2022	$ 12,652	$ 4,671	$ 2,432	$ 29	$ 2,308	$ 156	$ 1	$ 30	$ 22,279
Charge-offs	-	(47)	-	-	-	-	-	-	(47)
Recoveries	10	107	1	-	-	-	-	-	118
(Reversal) provision for loan losses	29	177	3,805	(2)	(6)	14	(1)	1	4,017
Transfer from reserve on unfunded commitments	-	(1)	(14)	-	(1)	3	-	-	(13)
Balance at September 30, 2022	$ 12,691	$ 4,907	$ 6,224	$ 27	$ 2,301	$ 173	$ -	$ 31	$ 26,354
Balance at December 31, 2021	11,221	5,501	2,519	38	3,476	128	47	66	$ 22,996
Charge-offs	(53)	(261)	-	-	-	-	-	-	(314)
Recoveries	10	529	2	-	-	-	-	-	541
(Reversal) provision for loan losses	1,505	(837)	3,688	(11)	(1,176)	42	(47)	(35)	3,129
Transfer from reserve on unfunded commitments	8	(25)	15	-	1	3	-	-	2
Balance at September 30, 2022	$ 12,691	$ 4,907	$ 6,224	$ 27	$ 2,301	$ 173	$ -	$ 31	$ 26,354
Allowance for loan losses: Ending Balance at September 30, 2022									
Individually evaluated for impairment	$ 191	$ 1,025	$ -	$ 1	$ 2,160	$ -	$ -	$ -	$ 3,377
Collectively evaluated for impairment	$ 12,500	$ 3,882	$ 6,224	$ 26	$ 141	$ 173	$ -	$ 31	$ 22,977
Balance at June 30, 2021	$ 10,053	$ 6,949	$ 2,517	$ 73	$ 3,695	$ 118	$ 45	$ 205	$ 23,655
Charge-offs	-	(12)	-	-	-	-	-	-	(12)
Recoveries	17	99	-	-	-	-	-	-	116
Provision (reversal) for loan losses	959	(923)	(71)	(6)	18	14	1	(130)	(138)
commitments	(13)	185	10	-	(3)	(7)	-	-	172
Balance at September 30, 2021	$ 11,016	$ 6,298	$ 2,456	$ 67	$ 3,710	$ 125	$ 46	$ 75	$ 23,793
Balance at December 31, 2020	$ 14,487	$ 11,394	$ 3,556	$ 87	$ 1,522	$ 151	$ 45	$ 350	$ 31,592
Charge-offs	-	(332)	-	-	-	-	-	-	(332)
Recoveries	24	294	-	-	-	-	-	-	318
Provision (reversal) for loan losses	(3,495)	(5,319)	(1,121)	(20)	2,205	(19)	1	(275)	(8,043)
commitments	-	261	21	-	(17)	(7)	-	-	258
Balance at September 30, 2021	$ 11,016	$ 6,298	$ 2,456	$ 67	$ 3,710	$ 125	$ 46	$ 75	$ 23,793
Recorded Investments in Loans Outstanding:									
Ending Balance at September 30, 2022	$ 8,718,861	$ 1,317,017	$ 1,031,621	$ 110,590	$ 145,667	$ 172,367	$ 1,850	$ 18,987	$ 11,516,960
Individually evaluated for impairment	$ 34,118	$ 14,809	$ 1,739	$ 154	$ 8,799	$ -	$ 1,850	$ 1,297	$ 62,766
Collectively evaluated for impairment	$ 8,684,743	$ 1,302,208	$ 1,029,882	$ 110,436	$ 136,868	$ 172,367	$ -	$ 17,690	$ 11,454,194
Ending Balance at December 31, 2021	$ 8,198,790	$ 1,156,213	$ 814,364	$ 117,308	$ 89,102	$ 124,841	$ 1,896	$ 18,849	$ 10,521,363
Individually evaluated for impairment	$ 21,598	$ 11,383	$ 2,005	$ 252	$ 10,742	$ -	$ 1,896	$ -	$ 47,876
Collectively evaluated for impairment	$ 8,177,192	$ 1,144,830	$ 812,359	$ 117,056	$ 78,360	$ 124,841	$ -	$ 18,849	$ 10,473,487

NOTE 4 —LEASES:

The association evaluates arrangements at inception to determine if it meets the criteria for a lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. Operating leases with terms greater than 12 months are included in right of use asset-leases (ROU) and lease liabilities on the balance sheet.

ROU 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. Operating ROU assets and liabilities are recognized based on the present value of the lease payments over the lease term. As the rate implicit in the lease is generally not readily determinable for the association's operating leases, the discount rates used to determine the present value of the association's lease liability are based on the association's incremental borrowing rate at the lease commencement date and commensurate with the remaining lease term. The incremental borrowing rate for a lease is the association's cost of funds from the Bank over a similar term at an amount equal to the lease payments in a similar economic environment. The association's lease terms may include options to extend or terminate the lease when it is reasonably certain that the association will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term and is included in "Occupancy and equipment" in the income statement.

The components of lease expense were as follows:

		For the Three Months Ended		For the Nine Months Ended	
	Classification	**September 30, 2022**	September 30, 2021	**September 30, 2022**	September 30, 2021
Operating lease expense	Operating	**$ 687**	$ 668	**$ 2,073**	$ 1,944
Short-term lease expense	Operating	**39**	50	**162**	176
Total lease expense		**$ 726**	$ 718	**$ 2,235**	$ 2,120

Other information related to leases was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	**$ 686**	$ 664	**$ 2,061**	$ 1,921
Right-of-use assets obtained in exchange for new lease obligations:				
Operating leases	**-**	345	**518**	919

Lease term and discount rate are as follows:

	September 30, 2022	December 31, 2021
Weighted average remaining lease term in years		
Operating leases	**3.0**	3.4
Weighted average discount rate		
Operating leases	**2.1**	2.1

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

	Operating Leases
2022 (excluding the nine months ended 9/30/2022)	**$ 686**
2023	2,457
2024	1,915
2025	1,138
2026	617
Thereafter	1,359
Total lease payments	8,172
Less: interest	-
Total	$ 8,172

NOTE 5 — MEMBERS EQUITY:

The association’s board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the association's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected patronage, equity retirements and other actions that may decrease the association’s permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an association’s customer base; and any other risk-oriented activities, such as funding and interest rate risk, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

In January 19, 2021 the association issued $200,000 in noncumulative perpetual preferred stock. The decision to issue preferred stock came in response to the high level of loan growth in 2020 and expected continued growth. The issuance carries an annual dividend rate of 5.00 percent paid quarterly. The issuance will be callable March 15, 2026 and quarterly thereafter. If not called, the dividend will reset for the next five years to 4.52 percent over the five-year treasury on the call date. The association has made dividend payments on March 15, June 15, and September 15, 2022, for a total amount in 2022 of $7,500.

Regulatory Capital Ratios

	Regulatory Minimums	Conservation Buffers	Total	As of September 30, 2022	As of December 31, 2021
Risk-adjusted:					
Common equity tier 1 ratio	4.5%	2.5%	7.0%	**11.7%**	12.4%
Tier 1 capital ratio	6.0%	2.5%	8.5%	**13.3%**	14.3%
Total capital ratio	8.0%	2.5%	10.5%	**13.5%**	14.5%
Permanent capital ratio	7.0%	0.0%	7.0%	**13.3%**	14.3%
Non-risk-adjusted:					
Tier 1 leverage ratio	4.0%	1.0%	5.0%	**14.1%**	15.0%
UREE leverage ratio	1.5%	0.0%	1.5%	**5.0%**	7.3%

The details for the amounts used in the calculation of the regulatory capital ratios as of September 30, 2022:

90 Day Average Balances (dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 734,381	$ 734,381	$ 734,381	$ 734,381
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	28,602	28,602	28,602	28,602
Allocated equities held ≥7 years	801,155	801,155	801,155	801,155
Nonqualified allocated equities not subject to retirement	-	-	-	-
Non-cumulative perpetual preferred stock	-	200,000	200,000	200,000
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	22,805	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(159,376)	(159,376)	(159,376)	(159,376)
Other regulatory required deductions	(1,457)	(1,457)	(1,457)	(1,457)
	1,403,305	1,603,305	1,626,110	1,603,305
Denominator:				
Risk-adjusted assets excluding allowance	12,198,171	12,198,171	12,198,171	12,198,171
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(160,833)	(160,833)	(160,833)	(160,833)
Allowance for loan losses	-	-	-	(22,463)
	12,037,338	12,037,338	12,037,338	12,014,875

90 Day Average Balances (dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 734,381	$ 734,381
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	28,602	-
Allocated equities held ≥7 years	801,155	
Non-cumulative perpetual preferred stock	200,000	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(159,376)	(159,376)
Other regulatory required deductions	(1,457)	(1,457)
	1,603,305	573,548
Denominator:		
Total Assets	11,582,641	11,582,641
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(193,753)	(193,753)
	11,388,888	11,388,888

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2022	2021
Accumulated other comprensive (loss) at January 1	**$ (2,957)**	$ (3,557)
Amortization of prior service (credit) included in salaries and employee benefits	**(138)**	(138)
Amortization of actuarial loss included in salaries and employee benefits	**86**	172
Other comprehensive (loss) income, net of tax	**(52)**	34
Accumulated other comprensive (loss) at September 30	**$ (3,009)**	$ (3,523)

NOTE 6 — INCOME TAXES:

The association conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. The association operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the association can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

NOTE 7 — FAIR VALUE MEASUREMENTS:

FASB guidance defines 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 15 to the 2021 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis, which are measured at fair value at the end of each reporting period on the association's consolidated balance sheet, are summarized below. The association did not have any liabilities measured at fair value on a recurring basis.

September 30, 2022	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 9,200**	**$ -**	**$ -**	**$ 9,200**
Total assets	**$ 9,200**	**$ -**	**$ -**	**$ 9,200**

December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 11,121	$ -	$ -	$ 11,121
Total assets	$ 11,121	$ -	$ -	$ 11,121

Assets and liabilities measured at fair value on a nonrecurring basis, which are fair value measurements that are triggered by particular circumstances such as impaired assets, for each of the fair value hierarchy levels are summarized below. The association did not have any liabilities measured at fair value on a nonrecurring basis.

September 30, 2022	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans *	**$ -**	**$ -**	**$ 11,859**	**$ 11,859**
Other property owned	**-**	**-**	**371**	**371**

December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans *	$ -	$ -	$ 12,777	$ 12,777
Other property owned	-	-	1,704	1,704

*Loans represents the fair value of certain loans that were evaluated for impairment under the authoritative guidance “Accounting by Creditors for Impairment of a Loan.” The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral. 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.

Valuation Techniques

As more fully discussed in Note 15 to the 2021 Annual Report to Stockholders, authoritative 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 represents a brief summary of the valuation techniques used for the association’s assets and liabilities. For a more complete description, see Notes to the 2021 Annual Report to Stockholders.

Investments

Include mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac). Fair values are estimated using discounted cash flows considering market interest rates, estimated prepayment rates, probabilities of default and loss severities. Inputs depend significantly on management judgements and experience with the securities. These fair value measurements are classified as level 3 investments.

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.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

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 the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

NOTE 8 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the nine and three months ended September 30:

	For the three months ended September 30, Other Benefits		For the nine months ended September 30, Other Benefits	
	2022	2021	**2022**	2021
Service Cost	**$ 89**	$ 97	**$ 268**	$ 289
Interest Cost	**212**	189	**634**	568
Expected return on plan assets	**-**	-	**-**	-
Amortization of prior service (credits)	**(46)**	(46)	**(138)**	(138)
Amortization of net actuarial loss	**29**	58	**86**	172
Net periodic benefit cost	**$ 284**	$ 298	**$ 850**	$ 891

The association's liability for the unfunded accumulated obligation for these benefits at September 30, 2022, was $27,509 and is included in "Unfunded post-retirement medical obligations" in the balance sheet.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. Contributions due and unpaid are recognized as a liability. For the DB plan, the association recognized costs of $2,313 and $3,327 for the nine months ended September 30, 2022 and 2021. The decrease is a result of a decrease in the funding obligation due to retirements in 2021.

The association's contributions to the DC Plan are expensed as incurred. For the nine months ended September 30, 2022 and 2021, the association recognized pension costs of $2,688 and $2,276, respectively.

Employees are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Contributions to the 401(k) plan are expensed as incurred. For the nine month period ended September 30, 2022 and 2021, the association contributed $1,946 and $1,812, respectively.

The association also participates in a defined contribution nonqualified supplemental 401(k) plan. The total expenses of the nonqualified plan included in the association's employee benefit costs were $136 and $582 for the nine months ended September 30, 2022 and 2021, respectively.

NOTE 9 — COMMITMENTS AND CONTINGENT LIABILITIES:

The association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

NOTE 10 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through November 9, 2022, which is the date the financial statements were issued and there are no other significant events requiring disclosure as of this date.