PLAINS LAND BANK, FLCA

2022
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2022

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been 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.

Kay Lynn McLaughlin, Chief Executive Officer

November 9, 2022

Randy Darnell, Chairman, Board of Directors

November 9, 2022

Noemi McLaughlin, Assistant Controller

November 9, 2022

Lea Stukey, CPA, Financial Expert and Vice-Chairman of the Audit Committee

November 9, 2022

Third Quarter 2022 Financial Report

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PLAINS LAND BANK, FLCA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Plains Land Bank, FLCA, 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 financial statements comprise the operations of the FLCA. The financial statements were prepared under the oversight of the Association's audit committee.

Significant Events

In January 2022, a patronage of $9,200,000 was declared. The patronage was subsequently paid in March of 2022.

Conditions in the Texas District

Throughout the pandemic, the Farm Credit Bank of Texas (FCBT) continued to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Demand for District Associations' retail loans has been historically high, leading to elevated growth across the Texas District. However, loan growth has recently begun to moderate in the current rising interest rate environment. After a prolonged pandemic period that has been characterized by both supply chain disruptions and geopolitical conflicts which have impacted the availability and prices of relevant agricultural inputs, volatility in risk ratings is likely in future periods.

Inflationary pressures continued during the third quarter of 2022. The Federal Open Market Committee ("FOMC") has increased the target federal funds rate by a total of 300 basis points through the end of the third quarter, including three consecutive 75-basis-point increases in June, July and September. As of September 30, 2022, the federal funds target range rate is 3.00 – 3.25%. The FOMC is strongly committed to returning inflation to its 2% long-run objective. The Consumer Price Index for All Urban Consumers increased by 8.3% for the 12-month period ending August 2022, up from 5.2% for the same period last year, but down from a peak of 9.0% reached in June 2022.

On September 29, 2022, the U.S. Bureau of Economic Analysis ("BEA") released its third estimate of real gross domestic product ("GDP"). BEA confirmed that the U.S. economy experienced two consecutive quarters of negative growth during the first and second quarters of 2022, contracting at annualized rates of -1.6% and -0.6%, respectively.

Respondents to the Federal Reserve Bank of Philadelphia's Third Quarter 2022 Survey of Professional Forecasters released in August estimated that real GDP growth would reach an annual rate of 1.4% during the third quarter. According to the International Monetary Fund's latest World Economic Outlook released in July 2022, U.S. real GDP growth is estimated to be 2.3% in 2022 and 1.0% in 2023. The most recent data available from the U.S. Bureau of Labor Statistics indicates that the U.S. unemployment rate was 3.7% in August, slightly up from 3.6% in June, but down from 5.2% in August 2021.

In terms of the Texas District, second quarter real GDP growth rates released by BEA on September 30 ranged from 1.8% in Texas to -3.0% in Louisiana. Likewise, the August unemployment rates ranged from 2.6% in Alabama to 4.4% in New Mexico, relatively close to the national average of 3.7%.

The West Texas Intermediate ("WTI") crude oil futures price declined from an average of about $109 per barrel in the second quarter to an average of about $91 per barrel during the third quarter of 2022. However, quarterly average WTI crude oil prices increased by nearly 30% year-over-year (YOY). In its September Short Term Energy Outlook ("STEO"), the U.S. Energy Information Administration estimated that WTI prices would average about $98 per barrel in 2022, down about $4 per barrel from its June estimate. The September STEO also states that natural gas prices increased in August, reflecting continued strong demand from the electric power sector, keeping natural gas inventories below their five-year average.

In September 2022, the U.S. Department of Agriculture ("USDA") presented its latest farm income forecast. Net farm income (nominal) is forecast at $147.70 billion in 2022, up about 5.2% YOY. Total production expenses (nominal) are forecast to increase by about 17.8% in 2022. Farm sector assets and equity are both forecast to increase by about 9.7% and 10.4%, respectively, while farm debt is forecast to decrease by about 4.6% in nominal terms. The debt-to-assets ratio is forecast to continue improving in 2022.

According to USDA's September 2022 World Agricultural Supply and Demand Estimates report, average farm prices for corn, soybeans and cotton will increase during the 2022/23 marketing year. Similarly, steer prices are estimated to have averaged higher during the third quarter of 2022 compared to the prior quarter and are expected to continue rising during the fourth quarter. Overall, steers, broilers and turkeys are projected to experience double-digit increases in 2022 while barrows and gilts prices are projected to rise by about 6%. The USDA is similarly projecting high inflation in all-milk, with prices reaching an average of about $25 per hundredweight (cwt) during 2022, before declining to around $22/cwt in 2023. Lumber prices continued to trend lower during the third quarter of 2022 and decreased about 33% YOY.

The Federal Reserve Bank of Dallas released its third quarter Eleventh District Agricultural Survey on October 3, 2022. The Eleventh District includes Texas, southern New Mexico and northern Louisiana. Survey respondents noted that extreme dry conditions continued to negatively impact agricultural production, particularly for cotton and pasture. At the end of September, more than 30% of Texas land area was experiencing drought conditions classified as severe, extreme or exceptional. At this time, the impact of the drought is not materially impacting borrowers for which FCBT has participation interests or credit quality in the Texas District. However, the uncertainty concerning the length and ultimate severity of the drought may have future impacts. FCBT and the Association will continue to monitor the drought and associated impacts.

Hurricane Ian made landfall on September 28, 2022 as a Category 4 hurricane in southwest Florida. The storm was one of only nine Category 4 or worse hurricanes to make landfall in the continental U.S. during the past 50 years. The storm moved eastward through Florida into the Atlantic Ocean before making a second landfall in South Carolina as a Category 1 hurricane. In addition to wind damage, heavy rains and storm surge associated with Hurricane Ian contributed to widespread flooding. At this time, there is no indication that damage resulting from the storm will materially impact borrowers for which FCBT has participation interests or credit quality in the Texas District; however, it will take several weeks to fully assess the damage. FCBT and the Association will continue to monitor for any associated impacts.

Agricultural producers may be negatively affected by several factors during the remainder of 2022, including volatile commodity prices, high input costs, export market disruptions, geopolitical challenges, economic slowdown, transportation issues, including low water levels on major rivers such as the Mississippi and weather-related challenges. The Association's loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of the Association's borrowers primarily rely on non-farm sources of income to repay their loans.

Loan Portfolio

Total loans outstanding at September 30, 2022, including nonaccrual loans and sales contracts, were $943,730,403 compared to $871,649,828 at December 31, 2021, reflecting an increase of 8.3 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at September 30, 2022, and December 31, 2021.

The Association recorded no recoveries or charge-offs for the quarter ended September 30, 2022, and $1,084 in recoveries and no charge-offs for the same period in 2021. The Association's allowance for loan losses was 0.3 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 following table illustrates the Association's components and trends of high-risk assets.

	September 30, 2022		December 31, 2021	
	Amount	**%**	Amount	%
Nonaccrual	**$ 2,016,850**	**100.0%**	$ 2,115,427	100.0%
Total	**$ 2,016,850**	**100.0%**	$ 2,115,427	100.0%

Investments

During the third quarter of 2022, the Association did not exchange any mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security.

Results of Operations

The Association had net income of $5,685,937 and $16,599,012 for the three and nine months ended September 30, 2022, as compared to net income of $5,164,686 and $13,244,241 for the same period in 2021, reflecting an increase of 10.1 percent and 25.3 percent. Net interest income was $6,495,850 and $18,908,596 for the three and nine months ended September 30, 2022, compared to $5,968,076 and $17,195,906 for the same period in 2021.

	Nine Months Ended			
	September 30, 2022		September 30, 2021	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 912,967,448**	**$ 33,203,674**	$ 833,522,309	$ 29,038,558
Investments	**-**	**-**	-	-
Total interest-earning assets	**912,967,448**	**33,203,674**	833,522,309	29,038,558
Interest-bearing liabilities	**791,089,868**	**14,295,078**	717,663,763	11,842,652
Impact of capital	**$ 121,877,580**		$ 115,858,546	
Net interest income		**$ 18,908,596**		$ 17,195,906

	2022 Average Yield	2021 Average Yield
Yield on loans	**4.86%**	4.66%
Cost of interest-bearing liabilities	**2.42%**	2.21%
Interest rate spread	**2.44%**	2.45%
Net interest income as a percentage of average earning assets	**2.77%**	2.76%

	Nine months ended: September 30, 2022 vs. September 30, 2021		
	Increase due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 2,767,753**	**$ 1,397,363**	**$ 4,165,116**
Interest expense	**1,211,671**	**1,240,755**	**2,452,426**
Net interest income	**$ 1,556,081**	**$ 156,609**	**$ 1,712,690**

Interest income for the three and nine months ended September 30, 2022, increased by $1,970,043 and $4,165,116, or 19.6 percent and 14.3 percent respectively, from the same period of 2021, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2022, increased by $1,442,269 and $2,452,426, or 35.3 percent and 20.7 percent, from the same period of 2021 due to an increase in interest rates and by an increase in average debt volume. Average loan volume for the third quarter of 2022 was $940,227,855, compared to $859,616,572 in the third quarter of 2021. The average net interest rate spread on the loan portfolio for the nine months ended September 30, 2022 was 2.44 percent, compared to 2.45 percent for the same period in 2021.

The Association's return on average assets for the nine months ended September 30, 2022, was 2.35 percent compared to 2.06 percent for the same period in 2021. The Association's return on average equity for the nine months ended September 30, 2022, was 14.91 percent, compared to 12.87 percent for the same period in 2021.

Liquidity and Funding Sources

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2022	December 31, 2021
Note payable to the Bank	**$ 822,404,519**	$ 752,201,210
Accrued interest on note payable	**1,896,124**	1,368,353
Total	**$ 824,300,643**	$ 753,569,563

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 $822,404,519 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 2.79 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 and related accrued interest payable since December 31, 2021, is due to the Association's increase in total assets since year end. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $121,206,969 at September 30, 2022. The maximum amount the Association may borrow from the Bank as of September 30, 2022, was $959,701,492 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.

Capital regulation changes for tier 1/tier 2 framework went into effect as of January 1, 2022. This change had a minimal impact and does not result in the Association's URE or UREE ratios falling below the regulatory minimum.

Capital Resources

The Association's capital position increased by $7,461,163 at September 30, 2022, compared to December 31, 2021. The Association's debt as a percentage of members' equity was 5.27:1 as of September 30, 2022, compared to 5.07:1 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 continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2022, the Association exceeded all regulatory capital requirements.

Significant Recent 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 refinancing 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 January 2021, the FASB issued an update to Reference Rate Reform whereby certain derivative instruments may be modified to change the rate used for margining, discounting, or contract price alignment. An entity may elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments do not apply to contract modifications made or new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022. The Association adopted the guidance in the first quarter of 2021, and the impact was not material to the Association's financial condition or its results of operations.

In March 2020, the FASB issued guidance titled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association applied the optional accounting expedients available under the guidance to debt and derivative contract modifications related to LIBOR transition in the fourth quarter of 2020. The impact of adoption was not material to the Association's financial condition or results of operations. In addition, the Association adopted the optional expedient as it relates to loans during the first quarter of 2021, and the impact of adoption was not material to the Association's financial condition or results of operations.

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 and depending on the situation available-for-sale 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 this, entity, this guidance becomes effective for interim and annual reporting periods beginning after December 15, 2022. The impact of adoption of the standard is expected to increase the allowance for credit losses related to loans and unfunded commitments by 10 to 20 percent, with a resulting negative adjustment to retained earnings. 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.

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 Plains Land Bank, FLCA 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 78720-2590, 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 quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Plains Land Bank, FLCA, 1616 S. Kentucky St., Suite C250, Amarillo, Texas 79102-5210 or calling (806) 331-0926. The annual and quarterly stockholder reports for the Association are also available on its website at *www.plainslandbank.com*. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *kmclaughlin@plainslandbank.com*.

PLAINS LAND BANK, FLCA

BALANCE SHEET

		September 30, 2022 (unaudited)		December 31, 2021
ASSETS				
Cash	**$**	**12,849**	$	11,310
Loans		**943,730,403**		871,649,828
Less: allowance for loan losses		**2,365,367**		2,376,000
Net loans		**941,365,036**		869,273,828
Accrued interest receivable		**19,390,808**		15,537,365
Investment in and receivable from the Farm Credit Bank of Texas:				
Capital stock		**16,504,410**		16,600,480
Other		**162,269**		2,460,717
Premises and equipment, net		**2,505,881**		2,674,324
Other assets		**4,431,557**		749,033
Total assets	**$**	**984,372,810**	$	907,307,057
LIABILITIES				
Note payable to the Farm Credit Bank of Texas	**$**	**822,404,519**	$	752,201,210
Accrued interest payable		**1,896,124**		1,368,353
Drafts outstanding		**51,326**		200,915
Other liabilities		**3,030,689**		4,007,590
Total liabilities		**827,382,658**		757,778,068
MEMBERS' EQUITY				
Capital stock and participation certificates		**2,258,560**		2,188,585
Unallocated retained earnings		**154,631,075**		147,232,063
Accumulated other comprehensive income		**100,517**		108,341
Total members' equity		**156,990,152**		149,528,989
Total liabilities and members' equity	**$**	**984,372,810**	$	907,307,057

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

PLAINS LAND BANK, FLCA

STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	**2022**	2021
INTEREST INCOME				
Loans	**$ 12,021,082**	$ 10,051,039	**$ 33,203,674**	$ 29,038,558
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**5,525,232**	4,082,963	**14,295,078**	11,842,652
Net interest income	**6,495,850**	5,968,076	**18,908,596**	17,195,906
PROVISION FOR LOAN LOSSES (PROVISION REVERSAL)	**75,866**	(207,616)	**(8,054)**	640,331
Net interest income after provision for loan losses	**6,419,984**	6,175,692	**18,916,650**	16,555,575
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**1,417,227**	1,005,568	**4,192,490**	2,997,985
Loan fees	**30,910**	54,983	**110,716**	350,177
Financially related services income	**1,308**	1,587	**6,534**	5,988
(Loss) Gain on other property owned, net	**-**	(11,766)	**-**	71,673
Gain on sale of premises and equipment, net	**9,446**	8,464	**144,234**	44,588
Other noninterest income	**-**	4	**70,981**	58,399
Total noninterest income	**1,458,891**	1,058,840	**4,524,955**	3,528,810
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,052,332**	1,109,886	**3,294,307**	3,916,115
Directors' expense	**67,270**	37,413	**244,005**	168,339
Purchased services	**133,225**	133,016	**515,395**	534,497
Travel	**43,342**	48,751	**143,645**	142,766
Occupancy and equipment	**144,950**	162,140	**394,159**	390,873
Communications	**26,817**	24,339	**85,672**	71,050
Advertising	**84,553**	78,622	**294,180**	248,604
Public and member relations	**47,330**	37,684	**174,806**	151,727
Supervisory and exam expense	**83,725**	78,965	**241,654**	211,195
Insurance Fund premiums	**386,110**	280,023	**1,190,432**	868,179
Other noninterest expense	**123,284**	79,007	**264,338**	136,799
Total noninterest expenses	**2,192,938**	2,069,846	**6,842,593**	6,840,144
NET INCOME	**5,685,937**	5,164,686	**16,599,012**	13,244,241
Other comprehensive income:				
Change in postretirement benefit plans	**(2,608)**	(2,608)	**(7,824)**	(7,824)
COMPREHENSIVE INCOME	**$ 5,683,329**	$ 5,162,078	**$ 16,591,188**	$ 13,236,417

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

PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 2,098,280	$ 137,695,231	$ 127,250	$ 139,920,761
Comprehensive income	-	13,244,241	(7,824)	13,236,417
Capital stock/participation certificates and allocated retained earnings issued	282,840	-	-	282,840
Capital stock/participation certificates and allocated retained earnings retired	(217,175)	-	-	(217,175)
Patronage refunds:				
Cash	-	(8,800,000)	-	(8,800,000)
Capital stock/participation certificates and allocated retained earnings	-	2,133	-	2,133
Balance at September 30, 2021	$ 2,163,945	$ 142,141,605	$ 119,426	$ 144,424,976
Balance at December 31, 2021	$ 2,188,585	$ 147,232,063	$ 108,341	$ 149,528,989
Comprehensive income	-	16,599,012	(7,824)	16,591,188
Capital stock/participation certificates and allocated retained earnings issued	274,880	-	-	274,880
Capital stock/participation certificates and allocated retained earnings retired	(204,905)	-	-	(204,905)
Patronage refunds:				
Cash	-	(9,200,000)	-	(9,200,000)
Capital stock/participation certificates and allocated retained earnings	-	-	-	-
Balance at September 30, 2022	**$ 2,258,560**	**$ 154,631,075**	**$ 100,517**	**$ 156,990,152**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Plains Land Bank, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Armstrong, Briscoe, Carson, Floyd, Gray, Hale, the southwest portion of Hall, Hansford, Hemphill, Hutchinson, Lipscomb, Motley, Ochiltree, Oldham, Potter, Randall, and Roberts in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress 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 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 financial statements. These interim financial statements 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. 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 refinancing 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 January 2021, the FASB issued an update to Reference Rate Reform whereby certain derivative instruments may be modified to change the rate used for margining, discounting, or contract price alignment. An entity may elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments do not apply to contract modifications made or new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022. The Association adopted the guidance in the first quarter of 2021, and the impact was not material to the Association’s financial condition or its results of operations.

In March 2020, the FASB issued guidance titled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different Plains Land Bank, FLCA — 2021 Annual Report 11 types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association applied the optional accounting expedients available under the guidance to debt and derivative contract modifications related to LIBOR transition in the fourth quarter of 2020. The impact of adoption was not material to the Association’s financial condition or results of operations. In addition, the Association adopted the optional expedient as it relates to loans during the first quarter of 2021, and the impact of adoption was not material to the Association’s financial condition or results of operations.

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 and depending on the situation available-for-sale 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 this, entity, this guidance becomes effective for interim and annual reporting periods beginning after December 15, 2022. The impact of adoption of the standard is expected to increase the allowance for credit losses related to loans and unfunded commitments by 10 to 20 percent, with a resulting negative adjustment to retained earnings. 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 financial statements comprise the operations of the FLCA. The preparation of these financial statements requires the use of management’s estimates. The results for the quarter ended September 30, 2022, are not necessarily indicative of the results to be expected for the year ended December 31, 2022. Certain amounts in the prior period’s financial statements may have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2022 Amount**	December 31, 2021 Amount
Production agriculture:		
Real estate mortgage	**$ 825,158,007**	$ 764,558,538
Production and intermediate term	**6,378,144**	5,222,308
Agribusiness:		
Processing and marketing	**35,036,870**	42,726,479
Farm-related business	**18,028,916**	10,328,964
Loans to cooperatives	**8,133,151**	3,114,690
Rural residential real estate	**18,112,880**	14,771,419
Energy	**15,259,001**	15,679,977
Communication	**13,180,247**	11,701,039
Water and waste water	**2,444,910**	1,548,440
Agricultural export finance	**1,998,277**	1,997,974
Total	**$ 943,730,403**	$ 871,649,828

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 42,992,615	$ -	$ -	$ -	$ 42,992,615	$ -
Energy	15,259,001	-	-	-	15,259,001	-
Real estate mortgage	15,103,976	35,431,764	7,004,860	-	22,108,836	35,431,764
Communication	13,180,247	-	-	-	13,180,247	-
Production and intermediate term	6,378,144	-	-	-	6,378,144	-
Water and waste water	2,444,910	-	-	-	2,444,910	-
Agricultural export finance	1,998,277	-	-	-	1,998,277	-
Rural residential real estate	433,269	-	-	-	433,269	-
Total	$ 97,790,439	$ 35,431,764	$ 7,004,860	$ -	$104,795,299	$ 35,431,764

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 the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $15,856,062 and $10,431,913 at September 30, 2022, and December 31, 2021, respectively.

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

	September 30, 2022	December 31, 2021
Nonaccrual loans:		
Energy	**$ 2,016,850**	$ 2,115,427
Total nonperforming assets	**$ 2,016,850**	$ 2,115,427

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 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	**99.4** %	98.7 %
OAEM	**0.1**	-
Substandard/doubtful	**0.5**	1.3
	100.0	100.0
Production and intermediate term		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Agribusiness		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Energy		
Acceptable	**86.8**	86.5
OAEM	**-**	-
Substandard/doubtful	**13.2**	13.5
	100.0	100.0
Water/waste water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Agricultural export finance		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**99.3**	98.7
OAEM	**-**	-
Substandard/doubtful	**0.7**	1.3
	100.0 %	100.0 %

The following tables provide 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**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 425,863**	**$ -**	**$ 425,863**	**$ 843,541,902**	**$ 843,967,765**	**$ -**
Processing and marketing	**-**	**-**	**-**	**35,225,515**	**35,225,515**	**-**
Rural residential real estate	**-**	**-**	**-**	**18,196,652**	**18,196,652**	**-**
Farm-related business	**-**	**-**	**-**	**18,120,549**	**18,120,549**	**-**
Energy	**-**	**1,248,898**	**1,248,898**	**14,144,569**	**15,393,467**	**-**
Communication	**-**	**-**	**-**	**13,182,033**	**13,182,033**	**-**
Loans to cooperatives	**-**	**-**	**-**	**8,174,879**	**8,174,879**	**-**
Production and intermediate term	**-**	**-**	**-**	**6,406,683**	**6,406,683**	**-**
Water and waste water	**-**	**-**	**-**	**2,447,061**	**2,447,061**	**-**
Agricultural export finance	**-**	**-**	**-**	**2,006,607**	**2,006,607**	**-**
Total	**$ 425,863**	**$ 1,248,898**	**$ 1,674,761**	**$ 961,446,450**	**$ 963,121,211**	**$ -**

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	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ -	$ -	$ -	$ 779,728,987	$ 779,728,987	$ -
Processing and marketing	-	-	-	42,969,467	$ 42,969,467	-
Rural residential real estate	-	-	-	14,838,298	$ 14,838,298	-
Farm-related business	-	-	-	10,348,836	$ 10,348,836	-
Energy	-	1,248,898	1,248,898	14,446,466	$ 15,695,364	-
Communication	-	-	-	11,701,663	$ 11,701,663	-
Loans to cooperatives	-	-	-	3,120,054	$ 3,120,054	-
Production and intermediate term	-	-	-	5,233,974	$ 5,233,974	-
Water and waste water	-	-	-	1,549,135	$ 1,549,135	-
Agricultural export finance	-	-	-	2,001,415	$ 2,001,415	-
Total	$ -	$ 1,248,898	$ 1,248,898	$ 885,938,295	$ 887,187,193	$ -

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 if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings (TDRs) 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.

There were no troubled debt restructured loans as of September 30, 2022. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring as of September 30, 2022, and December 31, 2021.

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 for the quarter ending September 30, 2022.

The predominant form of concession granted for troubled debt restructuring includes concessions. Other types of modifications include extension of the term, 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.

Additional impaired loan information is as follows:

	September 30, 2022			December 31, 2021		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Energy	**$ 2,016,850**	**$ 2,017,890**	**$ 555,992**	$ 2,115,427	$ 2,116,466	$ 439,684
Real estate mortgage	**-**	**-**	**-**	-	-	-
Total	**$ 2,016,850**	**$ 2,017,890**	**$ 555,992**	$ 2,115,427	$ 2,116,466	$ 439,684
Impaired loans with no related allowance for credit losses:						
Energy	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -
Real estate mortgage	**-**	**-**	**-**	-	-	-
Total	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -
Total impaired loans:						
Energy	**$ 2,016,850**	**$ 2,017,890**	**$ 555,992**	$ 2,115,427	$ 2,116,466	$ 439,684
Real estate mortgage	**-**	**-**	**-**	-	-	-
Total	**$ 2,016,850**	**$ 2,017,890**	**$ 555,992**	$ 2,115,427	$ 2,116,466	$ 439,684

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2022		September 30, 2021		**September 30, 2022**		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 credit losses:								
Energy	**$ 2,019,529**	**$ -**	$ 2,204,178	$ -	**$ 2,058,953**	**$ -**	$ 1,447,817	$ 2,214
Real estate mortgage	**-**	**-**	-	-	**-**	**-**	-	-
Total	**$ 2,019,529**	**$ -**	$ 2,204,178	$ -	**$ 2,058,953**	**$ -**	$ 1,447,817	$ 2,214
Impaired loans with no related allowance for credit losses:								
Energy	**$ -**	**$ -**	$ -	$ -	**$ -**	**$ -**	$ -	$ -
Real estate mortgage	**-**	**-**	928,605	17,491	**-**	**-**	928,605	52,407
Total	**$ -**	**$ -**	$ 928,605	$ 17,491	**$ -**	**$ -**	$ 928,605	$ 52,407
Total impaired loans:								
Energy	**$ 2,019,529**	**$ -**	$ 2,204,178	$ -	**$ 2,058,953**	**$ -**	$ 1,447,817	$ 2,214
Real estate mortgage	**-**	**-**	928,605	17,491	**-**	**-**	928,605	52,407
Total	**$ 2,019,529**	**$ -**	$ 3,132,783	$ 17,491	**$ 2,058,953**	**$ -**	$ 2,376,422	$ 54,621

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Allowance for Credit Losses:								
Balance at June 30, 2022	$ 1,556,085	$ 17,274	$ 229,737	$ 21,487	$ 449,227	$ 30,177	$ 6,472	$ 2,310,459
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(76,390)	(361)	26,069	120	125,680	1,213	(465)	75,866
Other	(236)	(3,868)	(15,587)	-	(591)	-	(676)	(20,958)
Balance at September 30, 2022	$ 1,479,459	$ 13,045	$ 240,219	$ 21,607	$ 574,316	$ 31,390	$ 5,331	$ 2,365,367
Balance at December 31, 2021	$ 1,666,611	$ 13,512	$ 187,515	$ 21,384	$ 455,827	$ 25,857	$ 5,294	$ 2,376,000
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(185,381)	1,289	54,841	223	115,278	5,533	163	(8,054)
Other	(1,771)	(1,756)	(2,137)	-	3,211	-	(126)	(2,579)
Balance at September 30, 2022	$ 1,479,459	$ 13,045	$ 240,219	$ 21,607	$ 574,316	$ 31,390	$ 5,331	$ 2,365,367
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 555,992	$ -	$ -	$ 555,992
Collectively evaluated for impairment	1,479,459	13,045	240,219	21,607	18,324	31,390	5,331	1,809,375
Balance at September 30, 2022	$ 1,479,459	$ 13,045	$ 240,219	$ 21,607	$ 574,316	$ 31,390	$ 5,331	$ 2,365,367
Balance at June 30, 2021	$ 2,041,330	$ 42,188	$ 287,970	$ 27,189	$ 587,395	$ 29,224	$ 5,826	$ 3,021,122
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	1,084	-	-	-	-	-	-	1,084
Provision for loan losses	(5,375)	(34,702)	(64,966)	(2,833)	(102,567)	2,827	-	(207,616)
Other	728	7,490	4,464	-	(3,305)	(1,808)	-	7,569
Balance at September 30, 2021	$ 2,037,767	$ 14,976	$ 227,468	$ 24,356	$ 481,523	$ 30,243	$ 5,826	$ 2,822,159
Balance at December 31, 2020	$ 2,240,848	$ 38,077	$ 369,848	$ 28,759	$ 255,257	$ 31,073	$ -	$ 2,963,862
Charge-offs	-	-	(789,250)	-	-	-	-	(789,250)
Recoveries	1,084	-	-	-	-	-	-	1,084
Provision for loan losses	(203,597)	(25,827)	629,611	(4,403)	237,743	978	5,826	640,331
Other	(568)	2,726	17,259	-	(11,477)	(1,808)	-	6,132
Balance at September 30, 2021	$ 2,037,767	$ 14,976	$ 227,468	$ 24,356	$ 481,523	$ 30,243	$ 5,826	$ 2,822,159
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 465,485	$ -	$ -	$ 465,485
Collectively evaluated for impairment	2,037,767	14,976	227,468	24,356	16,038	30,243	5,826	2,356,674
Balance at September 30, 2021	$ 2,037,767	$ 14,976	$ 227,468	$ 24,356	$ 481,523	$ 30,243	$ 5,826	$ 2,822,159

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at September 30, 2022	$ 843,967,765	$ 6,406,683	$ 61,520,943	$ 13,182,033	$ 17,840,528	$ 18,196,652	$ 2,006,607	$ 963,121,211
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 2,016,850	$ -	$ -	$ 2,016,850
Collectively evaluated for impairment	$ 843,967,765	$ 6,406,683	$ 61,520,943	$ 13,182,033	$ 15,823,678	$ 18,196,652	$ 2,006,607	$ 961,104,361
Ending Balance at December 31, 2021	$ 779,728,987	$ 5,233,974	$ 56,438,357	$ 11,701,663	$ 17,244,499	$ 14,838,298	$ 2,001,415	$ 887,187,193
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 2,115,427	$ -	$ -	$ 2,115,427
Collectively evaluated for impairment	$ 779,728,987	$ 5,233,974	$ 56,438,357	$ 11,701,663	$ 15,129,072	$ 14,838,298	$ 2,001,415	$ 885,071,766

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Operating lease cost	**$ 22,451**	$ 19,271	**$ 68,254**	$ 55,294
Net lease cost	**$ 22,451**	$ 19,271	**$ 68,254**	$ 55,294

Other information related to leases was as follows:

	For the Nine Months Ended	
	September 30, 2022	September 30, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	**$ 70,263**	$ 56,311
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	**$ 196,816**	$ 266,928

Lease term and discount rate are as follows:

	September 30, 2022	December 31, 2021
Weighted average remaining lease term in years		
Operating leases	**2.30**	3.21
Weighted average discount rate		
Operating leases	**2.43%**	2.43%

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

	Operating Leases
2022	21,473
2023	83,158
2024	82,990
2025	27,846
Thereafter	-
Total lease payments	$ 215,467
Less: interest	6,483
Total	$ 208,984

During the first quarter of 2021, the Association entered into a sales-type lease agreement in which the Association is the lessor. At the termination of the lease, the Association will grant the lessee the option to purchase the property, which was valued at $318,059 at the inception of the lease. This lease has since termed as of April 30, 2022.

Components of lease receivable were as follows:

Unguaranteed residual value of leased assets	**$ 272,898**
Profit recognized at the commencement of the lease	**$ 12,636**

Other information related to sales-type 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
Interest income	**$ -**	$ 1,887	**$ 2,285**	$ 3,854
Cash received for amounts included in the measurement of leased assets	**$ -**	$ 15,000	**$ 20,000**	$ 32,630

NOTE 4 — CAPITAL:

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 dividends, 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 the Association's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, 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.

Regulatory Capitalization Requirements

Risk-adjusted:	**Regulatory Requirements Including Capital Conservation Buffers**	**As of September 30, 2022**	As of December 31, 2021
Common equity tier 1 ratio	7.00%	13.84%	14.45%
Tier 1 capital ratio	8.50%	13.84%	14.45%
Total capital ratio	10.50%	14.10%	14.76%
Permanent capital ratio	7.00%	13.88%	14.50%
Non-risk-adjusted:			
Tier 1 leverage ratio	5.00%	14.03%	14.70%
UREE leverage ratio	1.50%	13.79%	15.89%

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) are as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of seven years, allocated equities held for a minimum of seven years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk adjusted assets.

- Total capital is tier 1 capital plus other required borrower stock held for a minimum of five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred stock greater than five years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.

- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.

- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

The components of the Association's risk-adjusted capital, based on 90-day average balances, were as follows on September 30, 2022 and December 31, 2021, respectively:

September 30, 2022	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**$ 148,609,929**	**$ 148,609,929**	**$ 148,609,929**	**$ 148,609,929**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,241,940**	**2,241,940**	**2,241,940**	**2,241,940**
Allowance for loan losses and reserve for credit losses subject to certain limitations	**-**	**-**	**2,454,284**	**-**
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(16,525,365)**	**(16,525,365)**	**(16,525,365)**	**(16,525,365)**
	$ 134,326,504	**$ 134,326,504**	**$ 136,780,788**	**$ 134,326,504**
Denominator:				
Risk-adjusted assets excluding allowance	**$ 986,818,816**	**$ 986,818,816**	**$ 986,818,816**	**$ 986,818,816**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(16,525,365)**	**(16,525,365)**	**(16,525,365)**	**(16,525,365)**
Allowance for loan losses	**-**	**-**	**-**	**(2,396,989)**
	$ 970,293,451	**$ 970,293,451**	**$ 970,293,451**	**$ 967,896,462**

December 31, 2021	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 141,671,387	$ 141,671,387	$ 141,671,387	$ 141,671,387
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,177,137	2,177,137	2,177,137	2,177,137
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	2,834,360	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(12,708,391)	(12,708,391)	(12,708,391)	(12,708,391)
	$ 131,140,133	$ 131,140,133	$ 133,974,493	$ 131,140,133
Denominator:				
Risk-adjusted assets excluding allowance	$ 920,127,457	$ 920,127,457	$ 920,127,457	$ 920,127,457
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(12,708,391)	(12,708,391)	(12,708,391)	(12,708,391)
Allowance for loan losses	-	-	-	(2,738,019)
	$ 907,419,066	$ 907,419,066	$ 907,419,066	$ 904,681,047

The components of the Association's non-risk-adjusted capital, based on 90-day average balances, were as follows on September 30, 2022 and December 31, 2021, respectively:

	September 30, 2022		December 31, 2021	
	Tier 1 leverage ratio	**UREE leverage ratio**	Tier 1 leverage ratio	UREE leverage ratio
Numerator:				
Unallocated retained earnings	**$ 148,609,929**	**$ 148,609,929**	$ 141,671,387	$ 141,671,387
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,241,940**	**-**	2,177,137	-
Amount of allocated investments in other System institutions	**(16,525,365)**	**(16,525,365)**	(12,708,391)	-
	$ 134,326,504	**$ 132,084,564**	$ 131,140,133	$ 141,671,387
Denominator:				
Total Assets	**$ 976,776,510**	**$ 976,776,510**	$ 907,281,573	$ 907,281,573
Regulatory Adjustments and Deductions:				
Regulatory deductions included in Tier 1 capital	**(19,128,732)**	**(19,128,732)**	(15,468,189)	(15,468,189)
	$ 957,647,778	**$ 957,647,778**	$ 891,813,384	$ 891,813,384

An additional component of equity is accumulated other comprehensive income, which is reported as follows:

Accumulated Other Comprehensive Income

	September 30, 2022
Nonpension postretirement benefits	**$ 100,517**
Total	**$ 100,517**

	September 30, 2021
Nonpension postretirement benefits	$ 119,426
Total	$ 119,426

The Association's accumulated other comprehensive income relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits is reflected in “Change in postretirement benefit plans” in the Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income for the nine months ended September 30:

	2022	2021
Accumulated other comprehensive income at January 1	**$108,341**	$ 127,250
Amortization of prior service credits included in salaries and employee benefits	**(7,824)**	(7,824)
Other comprehensive loss	**(7,824)**	(7,824)
Accumulated other comprehensive income at September 30	**$ 100,517**	$ 119,426

NOTE 5 — 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 13 to the 2021 Annual Report to Stockholders for a more complete description.

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

September 30, 2022	**Fair Value Measurement Using**			**Total Fair Value**	**Total Gains (Losses)**
	Level 1	**Level 2**	**Level 3**		
Assets:					
Loans*	**$ -**	**$ -**	**$1,461,898**	**$1,461,898**	**$ -**

December 31, 2021	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans*	$ -	$ -	$ 1,675,743	$ 1,675,743	$ -

*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.

Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

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

Valuation Techniques

As more fully discussed in Note 13 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 represent 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.

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.

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.

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 6 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2022	2021
Service cost	**$ 4,347**	$ 4,146
Interest cost	**27,273**	24,339
Amortization of prior service credits	**(7,824)**	(7,824)
Net periodic benefit cost	**$ 23,796**	$ 20,661

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2022, was $1,172,056 and is included in "Other liabilities" on the Balance Sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "Other noninterest expense" in the Statements of Comprehensive Income.

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. The Association previously disclosed in its financial statements for the year ended December 31, 2021, that it expected to contribute $58,715 to the District's defined benefit pension plan in 2022. As of September 30, 2022, $306,088 of contributions have been made. The Association presently anticipates contributing an additional $102,030 to fund the defined benefit pension plan in 2022 for a total of $408,118.

NOTE 7 — 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 8 — SUBSEQUENT EVENTS:

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