

MISSISSIPPI LAND BANK, ACA

**2022
Quarterly Report
Third Quarter**



PART OF THE FARM CREDIT SYSTEM



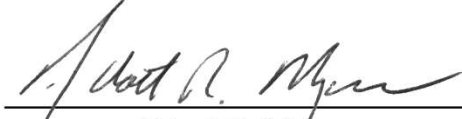
For the Quarter Ended September 30, 2022

REPORT OF MANAGEMENT

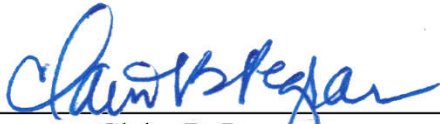
The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.



Bartley T. Harris
President and CEO
November 7, 2022



Abbott R. Myers
Chairman, Board of Directors
November 7, 2022



Claire B. Pegrum
Chief Financial Officer
November 7, 2022



W. Morgan Gullede, Jr.
Chairman, Audit Committee
November 7, 2022

Third Quarter 2022 Financial Report

Table of Contents

Management’s Discussion and Analysis.....	4
Consolidated Balance Sheets.....	8
Consolidated Statements of Comprehensive Income.....	9
Consolidated Statement of Changes in Members’ Equity.....	10
Notes to the Consolidated Financial Statements.....	11

MISSISSIPPI LAND BANK, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Mississippi Land Bank, 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. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events

In January 2022, the board of directors named Bartley T. Harris to succeed Craig B. Shideler as president and chief executive officer of the Association, and Mr. Harris assumed this role and all of its duties on April 1, 2022.

Conditions in North Mississippi

Throughout the Coronavirus Disease 2019 (also referred to as COVID-19) pandemic, the Association continued to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Despite these turbulent times, demand for retail loans has been historically high, and credit quality in the Association's territory has remained strong at a 99.6% total acceptable credit quality. However, 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, demand for new loans has begun to moderate, and volatility in risk ratings could occur in future periods.

Inflationary pressures continued during the third quarter of 2022, with the Consumer Price Index for All Urban Consumers Less Food and Energy rising 8.3% for the 12-month period ending August 2022. Consequently, 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%, and the FOMC is strongly committed to returning inflation to its 2% long-run objective. The quarterly average West Texas Intermediate oil 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.

In September 2022, the U.S. Department of Agriculture presented its latest farm income forecast which estimates net farm income at \$147.70 billion in 2022, up approximately 5.2% year-over-year, with production expenses forecasted to increase by 17.8%. 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. Lumber prices continued to trend lower during the third quarter of 2022 and decreased about 33% year-over-year.

Agricultural producers may be negatively affected during the remainder of 2022 by several factors, 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.

During 2022, the Farm Credit Bank of Texas (Bank) in its role as an information technology provider to the Association continued to modernize and roll out its service offering branded FarmView, an integrated suite of products for managing the full lending relationship, including sales management, origination, credit analysis, loan accounting, integrated cash management, and document management solutions. The FarmView platform provides benefits directly to the Association as well as its underlying retail borrowers.

Loan Portfolio

Total loans outstanding at September 30, 2022, including nonaccrual loans and sales contracts, were \$959,917,867 compared to \$926,065,090 at December 31, 2021, reflecting an increase of 3.7%. Nonaccrual loans as a percentage of total loans outstanding were 0.1% at September 30, 2022, compared to 0.2% at December 31, 2021.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ended September 30, 2022, and \$0 in recoveries and \$0 in charge-offs for the same period in 2021. The Association's allowance for loan losses was 0.1% and 0.1% of total loans outstanding as of September 30, 2022, and December 31, 2021, respectively.

Agribusiness Loan Program

The Association utilizes the Mississippi Development Authority's Agribusiness Enterprise Loan Program (ABE) to lower the cost of financing for its borrowers. The ABE loan program is designed to provide a percentage of low-cost state financing that is combined with private financial lending institutions' loan proceeds to encourage loans to the agribusiness industry in the state.

The Association guarantees payment of the borrower's ABE loan to the Mississippi Development Authority (MDA) and, therefore, the amount of ABE loans outstanding and due to MDA is included in "Loans" on the consolidated balance sheet with an offsetting liability at "Guaranteed obligations to government entities." ABE loans totaled \$9,113,057 and \$7,985,908 as of September 30, 2022 and December 31, 2021, respectively.

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	\$ 1,368,212	94.9%	\$ 1,799,706	91.7%
Formally restructured	72,864	5.1%	162,145	8.3%
Total	<u>\$ 1,441,076</u>	<u>100.0%</u>	<u>\$ 1,961,851</u>	<u>100.0%</u>

Results of Operations

The Association had net income of \$3,950,238 and \$11,721,922 for the three and nine months ended September 30, 2022, as compared to net income of \$3,728,344 and \$10,744,544 for the same period in 2021, reflecting an increase of 6.0% and 9.1%. Net interest income was \$5,621,360 and \$16,565,537 for the three and nine months ended September 30, 2022, compared to \$5,242,906 and \$15,400,429 for the same period in 2021.

	Nine Months Ended			
	September 30, 2022		September 30, 2021	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 928,730,260	\$ 28,812,964	\$ 853,468,471	\$ 25,797,569
Interest-bearing liabilities	798,526,190	12,247,427	728,772,731	10,397,140
Impact of capital	<u>\$ 130,204,070</u>		<u>\$ 124,695,740</u>	
Net interest income		<u>\$ 16,565,537</u>		<u>\$ 15,400,429</u>

	2022	2021
	Average Yield	Average Yield
Yield on loans	4.15%	4.04%
Cost of interest-bearing liabilities	2.05%	1.91%
Interest rate spread	2.10%	2.13%
Net interest income as a percentage of average earning assets	2.38%	2.41%

	Nine months ended:		
	September 30, 2022 vs. September 30, 2021		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 2,274,916	\$ 740,479	\$ 3,015,395
Interest expense	995,124	855,163	1,850,287
Net interest income	<u>\$ 1,279,792</u>	<u>\$ (114,684)</u>	<u>\$ 1,165,108</u>

Interest income for the three and nine months ended September 30, 2022, increased by \$1,273,980 and \$3,015,395, or 14.4% and 11.7% 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 \$895,526 and \$1,850,287, or 25.0% and 17.8%, from the same period of 2021 due to an increase in interest rates offset by an increase in average debt volume. Average loan volume for the third quarter of 2022 was \$944,809,948, compared to \$880,827,066 in the third quarter of 2021. The average net interest rate spread on the loan portfolio for the third quarter of 2022 was 2.06%, compared to 2.09% in the third quarter of 2021.

The Association's return on average assets for the nine months ended September 30, 2022, was 1.62% compared to 1.61% for the same period in 2021. The Association's return on average equity for the nine months ended September 30, 2022, was 10.12%, compared to 9.88% 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 (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	\$ 819,815,798	\$ 788,017,939
Accrued interest on note payable	1,532,000	1,238,168
Total	\$ 821,347,798	\$ 789,256,107

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 \$819,815,798 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 2.31% 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 general financing agreement. 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 loan volume outstanding, coupled with an increase in cost of interest-bearing liabilities. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$127,965,710 at September 30, 2022. The maximum amount the Association may borrow from the Bank as of September 30, 2022, was \$965,102,355 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, 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 to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year.

Capital Resources

The Association's capital position increased by \$11,826,498 at September 30, 2022, compared to December 31, 2021. The Association's debt as a ratio of members' equity was 5.20:1 as of September 30, 2022, compared to 5.44:1 as of December 31, 2021.

Farm Credit Administration regulations require us 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

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 Mississippi Land Bank, ACA 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 quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Mississippi Land Bank, ACA, P.O. Box 667, Senatobia, MS 38668-0667 or calling (662)562-9671. The annual and quarterly stockholder reports for the Association are also available on its website at www.mslandbank.com. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing Jessica.Stanford@mslandbank.com.

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED BALANCE SHEETS

	September 30, 2022 (unaudited)	December 31, 2021
<u>ASSETS</u>		
Cash	\$ 7,323	\$ 12,503
Loans	959,917,867	926,065,090
Less: allowance for loan losses	1,311,830	1,311,830
Net loans	<u>958,606,037</u>	<u>924,753,260</u>
Accrued interest receivable	14,557,452	12,796,342
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	14,689,950	14,689,950
Other	675,308	2,558,072
Premises and equipment, net	3,925,600	3,917,221
Other assets	4,334,466	667,403
Total assets	<u><u>\$ 996,796,136</u></u>	<u><u>\$ 959,394,751</u></u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 819,815,798	\$ 788,017,939
Guaranteed obligations to government entities	9,113,057	7,985,908
Accrued interest payable	1,532,002	1,238,168
Drafts outstanding	239,570	840,714
Dividends payable	243	6,250,013
Other liabilities	5,218,218	6,011,259
Total liabilities	<u><u>835,918,888</u></u>	<u><u>810,344,001</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	3,934,095	3,820,300
Unallocated retained earnings	157,038,915	145,316,993
Accumulated other comprehensive income (loss)	(95,762)	(86,543)
Total members' equity	<u>160,877,248</u>	<u>149,050,750</u>
Total liabilities and members' equity	<u><u>\$ 996,796,136</u></u>	<u><u>\$ 959,394,751</u></u>

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

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<u>INTEREST INCOME</u>				
Loans	\$ 10,103,995	\$ 8,830,015	\$ 28,812,964	\$ 25,797,569
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	4,482,635	3,587,109	12,247,427	10,397,140
Net interest income	5,621,360	5,242,906	16,565,537	15,400,429
<u>PROVISION FOR LOAN LOSSES</u>				
	-	-	-	152,686
Net interest income after provision for loan losses	5,621,360	5,242,906	16,565,537	15,247,743
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	1,280,802	1,100,913	3,823,517	3,303,995
Loan fees	103,279	153,061	341,873	402,720
Gain (loss) on sale of premises and equipment, net	27,133	-	9,271	84,932
Other noninterest income	169	412	63,493	37,703
Total noninterest income	1,411,383	1,254,386	4,238,154	3,829,350
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,961,324	1,795,361	5,642,024	5,533,936
Insurance Fund premiums	379,203	278,494	1,116,232	805,261
Travel	143,067	119,234	361,290	307,619
Occupancy and equipment	79,221	80,615	337,502	283,969
Purchased services	168,957	124,294	275,594	254,134
Supervisory and exam expense	80,933	61,261	242,797	211,483
Advertising	125,784	103,989	231,498	249,350
Directors' expense	47,410	35,665	218,223	119,729
Public and member relations	40,627	35,403	216,856	129,558
Other insurance expense	100	10,676	130,286	131,462
Communications	28,799	27,504	79,851	86,298
Training	27,364	35,143	62,545	54,767
Other components of net periodic postretirement benefit cost	9,980	8,823	29,940	26,468
Other noninterest expense	8,174	49,909	128,833	132,073
Total noninterest expenses	3,100,943	2,766,371	9,073,471	8,326,107
Income before income taxes	3,931,800	3,730,921	11,730,220	10,750,986
Provision for (benefit from) income taxes	(18,438)	2,577	8,298	6,442
NET INCOME	3,950,238	3,728,344	11,721,922	10,744,544
Other comprehensive income:				
Change in postretirement benefit plans	(3,073)	(2,134)	(9,219)	(6,402)
COMPREHENSIVE INCOME	\$ 3,947,165	\$ 3,726,210	\$ 11,712,703	\$ 10,738,142

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

MISSISSIPPI LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2020	\$ 3,554,195	\$ 136,446,864	\$ (149,202)	\$ 139,851,857
Comprehensive income	-	10,744,544	(6,402)	10,738,142
Capital stock/participation certificates issued	670,275	-	-	670,275
Capital stock/participation certificates retired	(447,110)	-	-	(447,110)
Balance at September 30, 2021	<u>\$ 3,777,360</u>	<u>\$ 147,191,408</u>	<u>\$ (155,604)</u>	<u>\$ 150,813,164</u>
Balance at December 31, 2021	\$ 3,820,300	\$ 145,316,993	\$ (86,543)	\$ 149,050,750
Comprehensive income	-	11,721,922	(9,219)	11,712,703
Capital stock/participation certificates issued	507,530	-	-	507,530
Capital stock/participation certificates retired	(393,735)	-	-	(393,735)
Balance at September 30, 2022	<u>\$ 3,934,095</u>	<u>\$ 157,038,915</u>	<u>\$ (95,762)</u>	<u>\$ 160,877,248</u>

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

MISSISSIPPI LAND BANK, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Mississippi Land Bank, ACA (Agricultural 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 Alcorn, Attala, Benton, Bolivar, Calhoun, Chickasaw, Choctaw, Clay, Coahoma, DeSoto, Itawamba, Lafayette, Lee, Lowndes, Marshall, Monroe, Noxubee, Oktibbeha, Panola, Pontotoc, Prentiss, Quitman, Sunflower, Tallahatchie, Tate, Tippah, Tishomingo, Tunica, Union, Webster, Winston and Yalobusha in the state of Mississippi. The Association is a lending institution of the Farm Credit System (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 consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with 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. 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, 2021. 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 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. We continue to test and refine our current expected loss models.

The entity intends to estimate losses over a two-year forecast period using a range of macroeconomic variables and then revert to the entity’s historical loss experience over an extended period of time. The Association continues to evaluate the impact of adoption on its financial condition and results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated 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 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,	December 31,
	2022	2021
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 775,245,645	\$ 755,429,312
Production and intermediate term	123,293,377	110,547,397
Agribusiness:		
Processing and marketing	28,511,185	27,493,138
Farm-related business	8,724,040	8,975,778
Loans to cooperatives	1,202,598	522,468
Rural residential real estate	14,856,667	15,785,271
Communication	4,803,357	4,763,267
Water and waste water	2,032,100	1,299,561
Energy	1,248,898	1,248,898
Total	<u>\$ 959,917,867</u>	<u>\$ 926,065,090</u>

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	Participations	Participations	Participations	Participations	Participations
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Agribusiness	\$ 25,089,210	\$ 3,873,601	\$ -	\$ -	\$ 25,089,210	\$ 3,873,601
Real estate mortgage	-	5,332,505	18,675,990	-	18,675,990	5,332,505
Communication	4,803,358	-	-	-	4,803,358	-
Production and intermediate term	2,452,068	2,233,765	-	-	2,452,068	2,233,765
Water and waste water	2,032,100	-	-	-	2,032,100	-
Energy	1,248,898	-	-	-	1,248,898	-
Total	<u>\$ 35,625,634</u>	<u>\$ 11,439,871</u>	<u>\$ 18,675,990</u>	<u>\$ -</u>	<u>\$ 54,301,624</u>	<u>\$ 11,439,871</u>

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 \$11,006,069 and \$10,983,462 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:		
Real estate mortgage	\$ 119,314	\$ 550,808
Energy	<u>1,248,898</u>	<u>1,248,898</u>
Total nonaccrual loans	<u>1,368,212</u>	<u>1,799,706</u>
Accruing restructured loans:		
Real estate mortgage	<u>72,864</u>	<u>162,145</u>
Total accruing restructured loans	<u>72,864</u>	<u>162,145</u>
Total nonperforming loans	<u>1,441,076</u>	<u>1,961,851</u>
Total nonperforming assets	<u>\$ 1,441,076</u>	<u>\$ 1,961,851</u>

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	99.7 %	99.5 %
OAEM	0.1	0.1
Substandard/doubtful	0.2	0.4
	<u>100.0</u>	<u>100.0</u>
Production and intermediate term		
Acceptable	99.6	99.6
OAEM	-	0.4
Substandard/doubtful	0.4	-
	<u>100.0</u>	<u>100.0</u>
Agribusiness		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Energy and water/waste water		
Acceptable	62.0	51.0
OAEM	-	-
Substandard/doubtful	38.0	49.0
	<u>100.0</u>	<u>100.0</u>
Communication		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Rural residential real estate		
Acceptable	99.8	99.7
OAEM	-	-
Substandard/doubtful	0.2	0.3
	<u>100.0</u>	<u>100.0</u>
Agricultural export finance		
Acceptable	100.0	-
OAEM	-	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>-</u>
Total loans		
Acceptable	99.5	99.3
OAEM	0.1	0.2
Substandard/doubtful	0.4	0.5
	<u>100.0 %</u>	<u>100.0 %</u>

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	\$ 294,049	\$ -	\$ 294,049	\$ 787,238,289	\$ 787,532,338	\$ -
Production and intermediate term	10,114	-	10,114	125,358,950	125,369,064	-
Processing and marketing	-	-	-	28,591,731	28,591,731	-
Rural residential real estate	-	-	-	14,899,570	14,899,570	-
Farm-related business	-	-	-	8,790,677	8,790,677	-
Communication	-	-	-	4,804,261	4,804,261	-
Water and waste water	-	-	-	2,036,060	2,036,060	-
Energy	-	1,248,898	1,248,898	-	1,248,898	-
Loans to cooperatives	-	-	-	1,202,739	1,202,739	-
Agricultural export finance	-	-	-	(19)	(19)	-
Total	\$ 304,163	\$ 1,248,898	\$ 1,553,061	\$ 972,922,258	\$ 974,475,319	\$ -
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	\$ 270,694	\$ 458,947	\$ 729,641	\$ 765,696,794	\$ 766,426,435	\$ -
Production and intermediate term	210,204	-	210,204	112,021,731	112,231,935	-
Processing and marketing	-	-	-	27,525,018	27,525,018	-
Rural residential real estate	-	-	-	15,834,952	15,834,952	-
Farm-related business	-	-	-	9,007,392	9,007,392	-
Communication	-	-	-	4,763,550	4,763,550	-
Water and waste water	-	-	-	1,300,036	1,300,036	-
Energy	-	1,248,898	1,248,898	-	1,248,898	-
Loans to cooperatives	-	-	-	523,216	523,216	-
Total	\$ 480,898	\$ 1,707,845	\$ 2,188,743	\$ 936,672,689	\$ 938,861,432	\$ -

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.

As of September 30, 2022, the total recorded investment of troubled debt restructured loans was \$74,106 including \$1,242 classified as nonaccrual and \$72,864 classified as accrual. There was no specific allowance for loan losses related to loans based upon current net realizable value analyses. As of September 30, 2022, and as of December 31, 2021, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

The Association had no loans meet the requirements for troubled debt restructuring designation during the nine months ended September 30, 2022, nor did it have any meet the requirements for the same period in 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). The Association had no charge-offs recorded at the modification date for the quarter ending September 30, 2022.

The predominant form of concession granted for troubled debt restructuring is interest rate reduction, although other forms of concession could include deferral of principal or principal or interest reductions. 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. For the loans listed below meeting the requirements for a TDR designation, all were granted an interest rate that was considered lower than market rate for new debt with similar risk. No principal or interest was forgiven as part of the concessions.

The Association has no loans that met the accounting criteria as a troubled debt restructuring 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.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
Real estate mortgage	\$ 74,106	\$ 162,145	\$ 1,242	\$ 7,459
Total	\$ 74,106	\$ 162,145	\$ 1,242	\$ 7,459

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

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 and water/waste water	\$ 1,248,898	\$ 1,249,938	\$ 268,750	\$ 1,248,898	\$ 1,249,938	\$ 268,750
Total	\$ 1,248,898	\$ 1,249,938	\$ 268,750	\$ 1,248,898	\$ 1,249,938	\$ 268,750
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 191,798	\$ 193,572	\$ -	\$ 712,059	\$ 703,499	\$ -
Total	\$ 191,798	\$ 193,572	\$ -	\$ 712,059	\$ 703,499	\$ -
Total impaired loans:						
Real estate mortgage	\$ 191,798	\$ 193,572	\$ -	\$ 712,059	\$ 703,499	\$ -
Energy and water/waste water	1,248,898	1,249,938	268,750	1,248,898	1,249,938	268,750
Total	\$ 1,440,696	\$ 1,443,510	\$ 268,750	\$ 1,960,957	\$ 1,953,437	\$ 268,750

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

	For the Three Months Ended			
	September 30, 2022		September 30, 2021	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Energy and water/waste water	\$ 1,248,898	\$ -	\$ 1,248,898	\$ -
Total	\$ 1,248,898	\$ -	\$ 1,248,898	\$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 213,935	\$ 1,754	\$ 562,056	\$ 3,637
Production and intermediate term	-	-	17,887	372
Total	\$ 213,935	\$ 1,754	\$ 579,943	\$ 4,009
Total impaired loans:				
Real estate mortgage	\$ 213,935	\$ 1,754	\$ 562,056	\$ 3,637
Production and intermediate term	-	-	17,887	372
Energy and water/waste water	1,248,898	-	1,248,898	-
Total	\$ 1,462,833	\$ 1,754	\$ 1,828,841	\$ 4,009

	For the Nine Months Ended			
	September 30, 2022		September 30, 2021	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Energy and water/waste water	\$ 1,244,324	\$ -	\$ 647,524	\$ 1,984
Total	\$ 1,244,324	\$ -	\$ 647,524	\$ 1,984
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 601,565	\$ 26,066	\$ 490,956	\$ 11,897
Production and intermediate term	-	-	6,028	1,458
Total	\$ 601,565	\$ 26,066	\$ 496,984	\$ 13,355
Total impaired loans:				
Real estate mortgage	\$ 601,565	\$ 26,066	\$ 490,956	\$ 11,897
Production and intermediate term	-	-	6,028	1,458
Energy and water/waste water	1,244,324	-	647,524	1,984
Total	\$ 1,845,889	\$ 26,066	\$ 1,144,508	\$ 15,339

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	\$ 900,508	\$ 73,538	\$ 40,417	\$ 1,769	\$ 270,106	\$ 25,492	\$ -	\$ 1,311,830
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(17,000)	11,736	299	23	333	4,609	-	-
Other	-	-	-	-	-	-	-	-
Balance at September 30, 2022	<u>\$ 883,508</u>	<u>\$ 85,274</u>	<u>\$ 40,716</u>	<u>\$ 1,792</u>	<u>\$ 270,439</u>	<u>\$ 30,101</u>	<u>\$ -</u>	<u>\$ 1,311,830</u>
Balance at December 31, 2021	\$ 859,129	\$ 86,545	\$ 65,705	\$ 1,766	\$ 270,135	\$ 28,550	\$ -	\$ 1,311,830
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	24,379	(1,271)	(24,989)	26	304	1,551	-	-
Other	-	-	-	-	-	-	-	-
Balance at September 30, 2022	<u>\$ 883,508</u>	<u>\$ 85,274</u>	<u>\$ 40,716</u>	<u>\$ 1,792</u>	<u>\$ 270,439</u>	<u>\$ 30,101</u>	<u>\$ -</u>	<u>\$ 1,311,830</u>
Ending Balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 268,750	\$ -	\$ -	\$ 268,750
Collectively evaluated for impairment	883,508	85,274	40,716	1,792	1,689	30,101	-	1,043,080
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Balance at September 30, 2022	<u>\$ 883,508</u>	<u>\$ 85,274</u>	<u>\$ 40,716</u>	<u>\$ 1,792</u>	<u>\$ 270,439</u>	<u>\$ 30,101</u>	<u>\$ -</u>	<u>\$ 1,311,830</u>
Balance at June 30, 2021	\$ 889,979	\$ 63,548	\$ 58,144	\$ 2,574	\$ 269,833	\$ 27,645	\$ 107	\$ 1,311,830
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	-	-	-	-	-	-	-	-
Adjustment due to merger	-	-	-	-	-	-	-	-
Other	(16,435)	25,581	(10,033)	(805)	316	1,483	(107)	-
Balance at September 30, 2021	<u>\$ 873,544</u>	<u>\$ 89,129</u>	<u>\$ 48,111</u>	<u>\$ 1,769</u>	<u>\$ 270,149</u>	<u>\$ 29,128</u>	<u>\$ -</u>	<u>\$ 1,311,830</u>
Balance at December 31, 2020	\$ 999,361	\$ 72,863	\$ 51,271	\$ 3,313	\$ 1,440	\$ 24,306	\$ -	\$ 1,152,554
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	-	-	-	-	-	-	-	-
Adjustment due to merger	(125,835)	25,306	(20,442)	(1,544)	269,874	4,907	420	152,686
Other	18	(9,040)	17,282	-	(1,165)	(85)	(420)	6,590
Balance at September 30, 2021	<u>\$ 873,544</u>	<u>\$ 89,129</u>	<u>\$ 48,111</u>	<u>\$ 1,769</u>	<u>\$ 270,149</u>	<u>\$ 29,128</u>	<u>\$ -</u>	<u>\$ 1,311,830</u>
Ending Balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 268,750	\$ -	\$ -	\$ 268,750
Collectively evaluated for impairment	873,544	89,129	48,111	1,769	1,399	29,128	-	1,043,080
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Balance at September 30, 2021	<u>\$ 873,544</u>	<u>\$ 89,129</u>	<u>\$ 48,111</u>	<u>\$ 1,769</u>	<u>\$ 270,149</u>	<u>\$ 29,128</u>	<u>\$ -</u>	<u>\$ 1,311,830</u>

	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	\$ 787,532,338	\$ 125,369,064	\$ 38,585,147	\$ 4,804,261	\$ 3,284,958	\$ 14,899,570	\$ (19)	\$ 974,475,319
Individually evaluated for impairment	\$ 1,743,082	\$ 531,705	\$ -	\$ -	\$ 1,248,898	\$ 35,164	\$ -	\$ 3,558,849
Collectively evaluated for impairment	\$ 785,789,256	\$ 124,837,359	\$ 38,585,147	\$ 4,804,261	\$ 2,036,060	\$ 14,864,406	\$ (19)	\$ 970,916,470
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance at								
December 31, 2021	\$ 766,426,435	\$ 112,231,935	\$ 37,055,626	\$ 4,763,550	\$ 2,548,934	\$ 15,834,952	\$ -	\$ 938,861,432
Individually evaluated for impairment	\$ 3,185,277	\$ -	\$ -	\$ -	\$ 1,248,898	\$ 42,269	\$ -	\$ 4,476,444
Collectively evaluated for impairment	\$ 763,241,158	\$ 112,231,935	\$ 37,055,626	\$ 4,763,550	\$ 1,300,036	\$ 15,792,683	\$ -	\$ 934,384,987
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NOTE 3 — 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 institution'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 an institution'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, 2022
Common equity tier 1 ratio	7.00%	14.38%	14.39%
Tier 1 capital ratio	8.50%	14.38%	14.39%
Total capital ratio	10.50%	14.51%	14.53%
Permanent capital ratio	7.00%	14.40%	14.41%
Non-risk-adjusted:			
Tier 1 leverage ratio	5.00%	14.58%	14.63%
UREE leverage ratio	1.50%	14.18%	15.59%

The components of the Association's risk-adjusted capital, based on 90-day average balances, were as follows:

September 30, 2022

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$ 152,145,354	\$ 152,145,354	\$ 152,145,354	\$ 152,145,354
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	3,908,085	3,908,085	3,908,085	3,908,085
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	1,350,789	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(14,689,950)	(14,689,950)	(14,689,950)	(14,689,950)
	<u>\$ 141,363,489</u>	<u>\$ 141,363,489</u>	<u>\$ 142,714,278</u>	<u>\$ 141,363,489</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$ 998,006,671	\$ 998,006,671	\$ 998,006,671	\$ 998,006,671
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(14,689,950)	(14,689,950)	(14,689,950)	(14,689,950)
Allowance for loan losses	-	-	-	(1,311,830)
	<u>\$ 983,316,721</u>	<u>\$ 983,316,721</u>	<u>\$ 983,316,721</u>	<u>\$ 982,004,891</u>

December 31, 2021

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$ 145,358,141	\$ 145,358,141	\$ 145,358,141	\$ 145,358,141
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	3,796,672	3,796,672	3,796,672	3,796,672
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	1,350,789	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(12,697,769)	(12,697,769)	(12,697,769)	(12,697,769)
	<u>\$ 136,457,044</u>	<u>\$ 136,457,044</u>	<u>\$ 137,807,833</u>	<u>\$ 136,457,044</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$ 961,037,481	\$ 961,037,481	\$ 961,037,481	\$ 961,037,481
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(12,697,769)	(12,697,769)	(12,697,769)	(12,697,769)
Allowance for loan losses	-	-	-	(1,311,830)
	<u>\$ 948,339,712</u>	<u>\$ 948,339,712</u>	<u>\$ 948,339,712</u>	<u>\$ 947,027,882</u>

The components of the Association’s non-risk-adjusted capital, based on 90-day average balances, were as follows:

	September 30, 2022	
	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 152,145,354	\$ 152,145,354
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	3,908,085	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(14,689,950)	(14,689,950)
	\$ 141,363,489	\$ 137,455,404
Denominator:		
Total Assets	\$ 987,465,944	\$ 987,465,944
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(17,845,506)	(17,845,506)
	\$ 969,620,438	\$ 969,620,438
December 31, 2021		
	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 145,358,141	\$ 145,358,141
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	3,796,672	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(12,697,769)	-
	\$ 136,457,044	\$ 145,358,141
Denominator:		
Total Assets	\$ 949,101,747	\$ 949,101,747
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(16,647,396)	(16,647,396)
	\$ 932,454,351	\$ 932,454,351

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes. 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 Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2022	2021
Accumulated other comprehensive income (loss) at January 1	\$ (86,543)	\$ (149,202)
Actuarial gains/(losses)	-	2,817
Amortization of prior service (credit) costs included in salaries and employee benefits	(9,219)	(9,219)
Other comprehensive income (loss), net of tax	(9,219)	(6,402)
Accumulated other comprehensive income (loss) at September 30	\$ (95,762)	\$ (155,604)

NOTE 4 — INCOME TAXES:

Mississippi Land Bank, ACA and its subsidiary, Mississippi, PCA, are subject to federal and certain other income taxes. 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 institution 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% probability), based on management's estimate, that they will not be realized. For the nine months ended September 30, 2022 and 2021, the Association carried a deferred tax asset of \$110,168 and \$123,838, respectively, with a full valuation allowance recorded against the net asset.

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 2 to the 2021 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

<u>September 30, 2022</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	<u>\$ 133,045</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 133,045</u>
Total assets	<u>\$ 133,045</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 133,045</u>
<u>December 31, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	<u>\$ 139,972</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 139,972</u>
Total assets	<u>\$ 139,972</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 139,972</u>

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

<u>September 30, 2022</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 980,148</u>	<u>\$ 980,148</u>
Other property owned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>December 31, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 980,148</u>	<u>\$ 980,148</u>
Other property owned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

*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.

The Association also participates in letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. At September 30, 2022, the Association had \$125,400 in outstanding standby letters of credit and \$11,631 in outstanding commercial letters of credit, all issued primarily in conjunction with participation loans.

Uncertainty of Fair Value Measurements

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

Valuation Techniques

As more fully discussed in Note 2 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.

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.

Loans Evaluated for Impairment

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

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of 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.

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.

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 three and nine months ended September 31:

	Other Benefits	
	<u>2022</u>	<u>2021</u>
Service cost	\$ 14,236	\$ 15,948
Interest cost	39,158	35,687
Amortization of prior service (credits) costs	(9,219)	(9,219)
Amortization of net actuarial (gain) loss	-	2,818
Net periodic benefit cost	<u>\$ 44,175</u>	<u>\$ 45,234</u>

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2022, was \$1,736,141 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 components of net periodic postretirement benefit cost" in the income statement.

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 annual contribution is paid in January with the expense amortized monthly to the "Salaries and employee benefits" line item on the consolidated statement of comprehensive income. The remaining unamortized amount is included in "Other assets" on the consolidated balance sheet.

The following table represents DB Plan contributions made, amounts amortized into expense and the remaining unamortized contribution amounts as of June 30:

	<u>2022</u>	<u>2021</u>
DB Plan contribution	\$ 369,229	\$ 762,268
YTD amortization	(276,922)	(571,701)
Remaining contribution	<u>\$ 92,307</u>	<u>\$ 190,567</u>

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 7, 2022 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 7, 2022.