ArborOne, ACA

FIRST QUARTER 2022

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2022 quarterly report of **ArborOne, ACA**, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Bryant Sansbury
President and Chief Executive Officer

Brad J. Fjestad
Chief Financial Officer and Treasurer

William Dupree Atkinson
Chairman of the Board

May 9, 2022

ArborOne, ACA

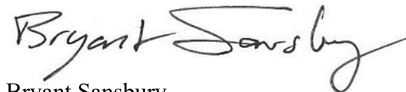
Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2022. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of March 31, 2022, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2022.



Bryant Sansbury
President and Chief Executive Officer

Brad J. Fjestad
Chief Financial Officer and Treasurer

May 9, 2022

ArborOne, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of **ArborOne, ACA**, (the Association) for the period ended March 31, 2022. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2021 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The Association has returned to ordinary business operations and has on-going safety measures in place that adjust as the current situation changes to limit health risk at the office in order to keep employees and customers safe. The Association continues to stay current with the Centers for Disease Control and Prevention (CDC) recommendations along with local agencies and adjust safety measures if needed.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including cash grains, cotton, forestry, poultry, and tobacco. Farm size varies and many of the borrowers in the region have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, somewhat impact the level of dependency on a given commodity. Approximately 35 percent of the portfolio has significant outside income to diversify dependence on agriculture, consisting of lifestyle loans and loans to less than full-time farmers with retirement income, salaried income and non-agricultural business income. Further, approximately 14 percent of the assets carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of March 31, 2022, was $580,065, a decrease of $3,061 as compared to $583,126 at December 31, 2021. Net loans outstanding at March 31, 2022, were $567,524 as compared to $570,089 at December 31, 2021. The Association had investment securities classified as held-to-maturity in the amount of $7,588. Net loans and investments accounted for 96.96 percent of total assets at March 31, 2022, as compared to 95.19 percent of total assets at December 31, 2021.

Net loans decreased by $2,565 during the reporting period. This decrease was mainly due to an increase in participations sold loan volume of $1,984, a decrease in participations purchased loan volume of $766, and a decrease in originated loan volume of $534. This decrease was partially offset by an increase in nonaccrual loan volume of $223 and a decrease in allowance for loan losses of $496.

The increase in participations sold loan volume was the result of advances on an existing account. The decrease in participations purchased loan volume was attributed mainly to several payoffs. The decrease in originated loan volume was mainly the result of paydowns on operating loans. The increase in nonaccrual loan volume was mainly due to the transfer of a large core loan into nonaccruing status, which was partially offset by net repayments, liquidations, a chargeoff, and the reinstatement of one account to accruing status.

The decrease in allowance for loan losses was mainly due to a decrease in general reserves, which was partially offset by an increase in specific reserves. The Association also has a reserve for unfunded commitments in the amount of $556, which resides in other liabilities.

Investment securities held-to-maturity (HTM) consist of mission related investments (Rural America Bonds). The investments were transferred in 2014 to HTM from available-for-sale (AFS) at fair value with unrealized gains and losses recognized in Other Comprehensive Income (OCI). These OCI amounts will be amortized or accreted to interest income ratably over the remaining life of each individual security in accordance with generally accepted accounting principles (GAAP). The amortization of an unrealized holding gain or loss reported in OCI will offset or mitigate the effect on interest income of the amortization of any premium or discount recorded on the transfer to held-to-maturity for each security.

The HTM investment securities decreased by $11 when compared to December 31, 2021. This decrease was mainly due to normal payments in the amount of $6 and the

amortization of the net unrealized loss from the transfer to HTM in the amount of $5.

As of March 31, 2022, approximately 87 percent of the Association's HTM Rural America Bonds were guaranteed; therefore the risk of credit loss to the Association was reduced. In June of 2021, the one ineligible security rated as other assets especially mentioned (OAEM), was upgraded to an acceptable rating, which moved the bond back into an eligible investment status. There were no unrealized credit impairments on the HTM investment portfolio as of December 31, 2021 and none were taken during the first three months of 2022.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual loans increased from $11,400 at December 31, 2021, to $11,623 at March 31, 2022. This was mainly due to the transfer of one large core loan into nonaccrual status. This increase was partially offset by net repayments, liquidations, a chargeoff, and the reinstatement of one account to accruing status.

As of March 31, 2022, the Association had two properties classed as OPO totaling $195, which is no change when compared to December 31, 2021. There were no writedowns or transfers into OPO for the period ended March 31, 2022. However, there was a gain on sale of a piece of equipment that had been previously written off as no value. Association staff is working diligently to market the OPO properties.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on credit quality, credit history, current conditions, and expected future conditions.

The allowance for loan losses at March 31, 2022, was $12,541, compared to $13,037 at December 31, 2021. The allowance for loan losses consisted of $10,406 in general reserves and $2,135 in specific reserves for several core agricultural loans and a Rural America Bond. Charge-offs for the three months ended March 31, 2022 were $33, on a nonaccrual core agricultural loan. There were recoveries of $17 for the three months ended March 31, 2022 attributed to several core agricultural loans. The Association has a reserve for unfunded commitments in the amount of $556, which resides in other liabilities. The allowance for loan losses for the period ending March 31, 2022 was considered by management to be adequate to cover any future possible losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2022

Net income for the three months ended March 31, 2022, totaled $3,338 an increase of $1,029, as compared to $2,309 for the same period in 2021. This increase was mainly due to an increase in net interest income of $483, an increase in noninterest income of $145, and a decrease in provision of $581. This increase was partially offset by an increase in noninterest expense of $173 and an increase in provision for income taxes of $7.

Interest income on accruing loans increased by $553 for the three months ended March 31, 2022 as compared to the same period in 2021, as a result of the increase in originated loan volume. Nonaccrual interest income increased by $177 as compared to the same period in 2021, which was mainly due to the liquidation of several accounts along with the reinstatement of one nonaccrual core account to accruing status. Interest income on investment securities was $100 compared to $109 for the same period in 2021. The decrease in investment interest income was due to the reduction in volume as a result of repayments in the normal course of business.

Interest expense increased $238 for the three months ended March 31, 2022, as compared to the comparable period of 2021. The interest expense increase was primarily due to the increase in loan volume.

The Association recorded a provision for reversal of allowance for loan losses of $480 as compared to a provision for loan losses of $101 for the comparable period of 2021. The decrease in provision for the quarter ended March 31, 2022 as compared to the same period in 2021, resulted mainly from a decrease in chargeoffs, which were partially offset by an increase in specific reserves and a decrease in recoveries.

Noninterest income for the three months ended March 31, 2022, totaled $1,347 as compared to $1,202 for the same period of 2021, an increase of $145. This increase was mainly due to an increase in patronage refunds from other Farm Credit institutions of $118, a decrease in losses on other transactions of $89 resulting from the reduction in reserves for unfunded commitments, an increase in fees for financially related services of $46, and an increase in other noninterest income of $2. These increases were partially offset by a decrease in loan fees of $110.

Noninterest expense for the three months ended March 31, 2022, increased $173 compared to the same period of 2021. This increase was mainly the result from an increase in other operating expenses of $151, an increase in salaries and benefits of $88, and an increase in insurance fund premiums of $15. These increases were offset by a decrease in purchased services of $44, a decrease in occupancy and equipment of $15, a

decrease in losses on other property owned of $14, and a decrease in data processing of $8.

The Association recorded a provision for income taxes of $7 for the three months ended March 31, 2022, but recorded no provision for the same period in 2021.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (AgFirst or Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2022, was $476,315 as compared to $489,921 at December 31, 2021. The decrease during the period was a result of the payment of 2021 patronage from the Bank, reducing the notes payable.

Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority (UK FCA), which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021.

On March 5, 2021, ICE Benchmark Administration (IBA) (the entity that is responsible for calculating LIBOR) announced its intention to cease the publication of the one-week and two-month US dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining US dollar LIBOR settings immediately following the LIBOR publication on June 30, 2023. On the same day, the UK FCA announced that the IBA had notified the UK FCA of its intent, among other things, to cease providing certain US dollar LIBOR settings as of June 30, 2023. In its announcement, the UK FCA confirmed that all 35 LIBOR tenors (including with respect to US dollar LIBOR) will be discontinued or declared nonrepresentative as of either: (a) immediately after December 31, 2021 or (b) immediately after June 30, 2023.

The Association has exposure to LIBOR arising from loans made to customers and loans purchased from other Farm Credit System institutions. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

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

The Association has implemented LIBOR transition plans and continues to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after June 30, 2023 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. At March 31, 2022, less than 18 percent of total LIBOR-indexed loans maturing after June 30, 2023 do not contain fallback provisions.

On July 26, 2021, the Alternative Reference Rates Committee (ARRC) announced it will recommend the CME Group's forward-looking SOFR term rates. The ARRC's formal recommendation of SOFR term rates is a major milestone and is expected to increase the volume of transactions quoted in SOFR, supporting the implementation of the transition away from LIBOR.

On October 20, 2021, the U.S. prudential regulators issued a joint statement emphasizing the expectation that supervised institutions with LIBOR exposure continue to progress toward an orderly transition away from LIBOR, reiterating that supervised institutions should, with limited exceptions, cease entering into new contracts that use US dollar LIBOR as a reference rate as soon as practicable, but no later than December 31, 2021. They further stated that entering into new contracts, including derivatives, after that date would create safety and soundness risks. The joint statement clarified that entering into such new contracts would include an agreement that (1) creates additional LIBOR disclosure or (2) extends the term of an existing LIBOR contract, but that a draw on an existing agreement that is legally enforceable, e.g., a committed credit facility, would not be a new contract. The joint statement also provided considerations when assessing the appropriateness of alternative reference rates used in lieu of LIBOR and the regulator expectation that new or updated LIBOR contracts include strong and clearly defined fallback rates for when the initial reference rate is discontinued.

On December 8, 2021, the FCA issued another informational memorandum to provide additional guidance to Farm Credit System institutions on their transition away from LIBOR. The guidance encourages Farm Credit System institutions to stop

entering into new contracts that reference LIBOR as soon as practicable and in any event no later than December 31, 2021. Entering into new LIBOR-referenced contracts after that date would present safety and soundness risk. The guidance also provides clarity on what the FCA considers a new LIBOR-indexed contract; whether purchases of legacy LIBOR-indexed loans and investments are deemed new contracts; limited exceptions for entering into new LIBOR contracts that reduce or hedge risk in legacy LIBOR contracts; and the due diligence and other procedures required before using other benchmark/reference rate alternatives to LIBOR (beyond SOFR), including credit-sensitive alternative rates.

The following is a summary of Association outstanding variable-rate financial instruments tied to LIBOR at March 31, 2022:

(dollars in thousands)	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 30, 2023	Total
Loans	$ 2,030	$ –	$ 19,724	$ 21,754
Total Assets	$ 2,030	$ –	$ 19,724	$ 21,754
Note Payable to AgFirst Farm Credit Bank	$ 1,614	$ –	$ 15,685	$ 17,299
Total Liabilities	$ 1,614	$ –	$ 15,685	$ 17,299

CAPITAL RESOURCES

Total members' equity increased by $3,374 from $101,565 at December 31, 2021 to $104,939 at March 31, 2022, primarily due to first quarter earnings retained. Total capital stock and participation certificates were $1,895 on March 31, 2022, compared to $1,858 on December 31, 2021. This increase was attributed to the purchases of capital stock and participation certificates on loans in the normal course of business.

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association has an unrealized gain of $4 as of March 31, 2022, as compared to an unrealized gain of $21 as of December 31, 2021 for FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Association has an unrealized net loss of $5 as of March 31, 2022 as compared to an unrealized net loss of $18 as of December 31, 2021 on the HTM investment securities. The resulting effect was a net loss of $1 to Accumulated Other Comprehensive Income for the three months ending March 31, 2022.

FCA sets minimum regulatory capital requirements for System Banks and Associations. The System's capital requirements are compatible with the Basel III framework and the standardized approach of federal banking regulatory agencies.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations. Refer to Note 7, *Members' Equity*, of the Association's 2021 Annual Report for additional information.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2022
Risk-adjusted ratios:				
CET1 Capital Ratio	4.5%	2.5%	7.0%	17.79%
Tier 1 Capital Ratio	6.0%	2.5%	8.5%	17.79%
Total Capital Ratio	8.0%	2.5%	10.5%	19.05%
Permanent Capital Ratio	7.0%	–%	7.0%	18.00%
Non-risk-adjusted ratios:				
Tier 1 Leverage Ratio **	4.0%	1.0%	5.0%	16.86%
UREE Leverage Ratio	1.5%	–%	1.5%	10.29%

** Includes fully phased-in capital conservation buffers which became effective January 1, 2020.*
*** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

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

For the period presented, the Association exceeded minimum regulatory standards for all the ratios.

REGULATORY MATTERS

On April 14, 2022, the FCA approved a final rule that amends certain regulations to address changes in accounting principles generally accepted in the United States. Such changes reflect the Current Expected Credit Losses (CECL) methodology that will replace the incurred loss methodology upon adoption. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. The regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. In addition, the regulation does not include an exclusion for the CECL day 1 cumulative effective adjustment from the "safe harbor" deemed prior approval provision. The final rule is effective on January 1, 2023.

On August 26, 2021, the FCA issued a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the increased risk posed by HVCRE exposures. The public comment period ended on January 24, 2022.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2021 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the following table.

The following ASU was issued by the Financial Accounting Standards Board (FASB):

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts, at the adoption date. • The guidance is expected to be adopted January 1, 2023.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, ***www.agfirst.com***. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-741-7332, writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, ***www.arborone.com***. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

ArborOne, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2022 *(unaudited)*	December 31, 2021 *(audited)*
Assets		
Cash	**$ 11**	$ 3
Investments in debt securities:		
Held to maturity (fair value of $7,831 and $8,431, respectively)	**7,588**	7,599
Loans	**580,065**	583,126
Allowance for loan losses	**(12,541)**	(13,037)
Net loans	**567,524**	570,089
Accrued interest receivable	**6,369**	8,118
Equity investments in other Farm Credit institutions	**5,451**	5,390
Premises and equipment, net	**3,694**	3,637
Other property owned	**195**	195
Accounts receivable	**1,158**	10,385
Other assets	**1,182**	1,472
Total assets	**$ 593,172**	$ 606,888
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 476,315**	$ 489,921
Accrued interest payable	**922**	917
Patronage refunds payable	**624**	6,171
Accounts payable	**890**	1,563
Other liabilities	**9,482**	6,751
Total liabilities	**488,233**	505,323
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**1,895**	1,858
Retained earnings		
Allocated	**70,512**	70,277
Unallocated	**32,598**	29,495
Accumulated other comprehensive income (loss)	**(66)**	(65)
Total members' equity	**104,939**	101,565
Total liabilities and members' equity	**$ 593,172**	$ 606,888

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

ArborOne, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended March 31, 2022	2021
Interest Income		
Loans	**$ 6,994**	$ 6,264
Investments	**100**	109
Total interest income	**7,094**	6,373
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**2,645**	2,407
Net interest income	**4,449**	3,966
Provision for (reversal of) allowance for loan losses	**(480)**	101
Net interest income after provision for (reversal of) allowance for loan losses	**4,929**	3,865
Noninterest Income		
Loan fees	**281**	391
Fees for financially related services	**94**	48
Patronage refunds from other Farm Credit institutions	**1,009**	891
Gains (losses) on other transactions	**(39)**	(128)
Other noninterest income	**2**	—
Total noninterest income	**1,347**	1,202
Noninterest Expense		
Salaries and employee benefits	**1,908**	1,820
Occupancy and equipment	**91**	106
Insurance Fund premiums	**161**	146
Purchased services	**81**	125
Data processing	**23**	31
Other operating expenses	**675**	524
(Gains) losses on other property owned, net	**(8)**	6
Total noninterest expense	**2,931**	2,758
Income before income taxes	**3,345**	2,309
Provision for income taxes	**7**	—
Net income	**$ 3,338**	$ 2,309
Other comprehensive income net of tax		
Unrealized gains (losses) on investments	**(5)**	(5)
Employee benefit plans adjustments	**4**	4
Other comprehensive income (loss) (Note 5)	**(1)**	(1)
Comprehensive income	**$ 3,337**	$ 2,308

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

ArborOne, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2020	$ 1,761	$ 63,700	$ 28,864	$ (68)	$ 94,257
Comprehensive income (loss)			2,309	(1)	2,308
Capital stock/participation certificates issued/(retired), net	30				30
Patronage distribution adjustment		155	(162)		(7)
Balance at March 31, 2021	$ 1,791	$ 63,855	$ 31,011	$ (69)	$ 96,588
Balance at December 31, 2021	**$ 1,858**	**$ 70,277**	**$ 29,495**	**$ (65)**	**$ 101,565**
Comprehensive income (loss)			**3,338**	**(1)**	**3,337**
Capital stock/participation certificates issued/(retired), net	**37**				**37**
Patronage distribution adjustment		**235**	**(235)**		**—**
Balance at March 31, 2022	**$ 1,895**	**$ 70,512**	**$ 32,598**	**$ (66)**	**$ 104,939**

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

ArborOne, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

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

Basis of Presentation

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

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

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

Significant Accounting Policies

The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

Accounting Standards Updates (ASUs) Issued During the Period and Applicable to the Association

The following ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent year-end:

- In March 2022, the FASB issued ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. This Update responds to feedback received during the Post Implementation Review process conducted by the FASB related to Topic 326.
    1. Troubled Debt Restructurings (TDRs) by Creditors
       The amendments eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan.
    2. Vintage Disclosures—Gross Writeoffs
       For public business entities, the amendments in this Update require that an entity disclose current period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.

These amendments will be implemented in conjunction with the adoption of ASU 2016-13.

ASUs Pending Effective Date

For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date through the life of the financial instrument. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	March 31, 2022	December 31, 2021
Real estate mortgage	$ 338,892	$ 334,280
Production and intermediate-term	190,567	202,506
Loans to cooperatives	2,282	2,186
Processing and marketing	20,121	20,051
Farm-related business	16,716	13,126
Power and water/waste disposal	685	684
Rural residential real estate	9,857	9,348
International	945	945
Total loans	$ 580,065	$ 583,126

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

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

	March 31, 2022							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 11,777	$ 3,901	$ –	$ –	$ –	$ –	$ 11,777	$ 3,901
Production and intermediate-term	13,847	879	–	–	–	–	13,847	879
Loans to cooperatives	2,291	–	–	–	–	–	2,291	–
Processing and marketing	10,715	17,367	–	–	–	–	10,715	17,367
Farm-related business	374	–	–	–	–	–	374	–
Power and water/waste disposal	686	–	–	–	–	–	686	–
International	946	–	–	–	–	–	946	–
Total	$ 40,636	$ 22,147	$ –	$ –	$ –	$ –	$ 40,636	$ 22,147

	December 31, 2021							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 12,379	$ 4,413	$ –	$ –	$ –	$ –	$ 12,379	$ 4,413
Production and intermediate-term	13,527	1,538	–	–	–	–	13,527	1,538
Loans to cooperatives	2,195	–	–	–	–	–	2,195	–
Processing and marketing	11,410	14,212	–	–	–	–	11,410	14,212
Farm-related business	386	–	–	–	–	–	386	–
Power and water/waste disposal	686	–	–	–	–	–	686	–
International	946	–	–	–	–	–	946	–
Total	$ 41,529	$ 20,163	$ –	$ –	$ –	$ –	$ 41,529	$ 20,163

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

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

	March 31, 2022	December 31, 2021
Real estate mortgage:		
Acceptable	93.57%	93.80%
OAEM	4.40	3.94
Substandard/doubtful/loss	2.03	2.26
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	90.32%	88.22%
OAEM	6.53	7.04
Substandard/doubtful/loss	3.15	4.74
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	73.10%	61.66%
OAEM	16.09	17.95
Substandard/doubtful/loss	10.81	20.39
	100.00%	100.00%

	March 31, 2022	December 31, 2021
Power and water/waste disposal		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	95.34%	95.00%
OAEM	2.60	2.77
Substandard/doubtful/loss	2.06	2.23
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	92.21%	91.41%
OAEM	5.22	5.16
Substandard/doubtful/loss	2.57	3.43
	100.00%	100.00%

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

	March 31, 2022				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 356	$ 1,446	$ 1,802	$ 340,572	$ 342,374
Production and intermediate-term	32	3,656	3,688	189,389	193,077
Loans to cooperatives	–	–	–	2,283	2,283
Processing and marketing	–	–	–	20,204	20,204
Farm-related business	28	1,121	1,149	15,656	16,805
Power and water/waste disposal	–	–	–	686	686
Rural residential real estate	145	–	145	9,745	9,890
International	–	–	–	946	946
Total	$ 561	$ 6,223	$ 6,784	$ 579,481	$ 586,265

	December 31, 2021				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 359	$ 1,366	$ 1,725	$ 336,687	$ 338,412
Production and intermediate-term	733	3,230	3,963	202,233	206,196
Loans to cooperatives	–	–	–	2,187	2,187
Processing and marketing	–	–	–	20,142	20,142
Farm-related business	79	1,253	1,332	11,887	13,219
Power and water/waste disposal	–	–	–	685	685
Rural residential real estate	53	–	53	9,321	9,374
International	–	–	–	946	946
Total	$ 1,224	$ 5,849	$ 7,073	$ 584,088	$ 591,161

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

	March 31, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	$ 5,338	$ 4,382
Production and intermediate-term	4,854	5,225
Farm-related business	1,227	1,584
Rural residential real estate	204	209
Total	$ 11,623	$ 11,400
Accruing restructured loans:		
Real estate mortgage	$ 6,041	$ 5,979
Production and intermediate-term	1,074	2,270
Total	$ 7,115	$ 8,249
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 18,738	$ 19,649
Other property owned	195	195
Total nonperforming assets	$ 18,933	$ 19,844
Nonaccrual loans as a percentage of total loans	2.00%	1.95%
Nonperforming assets as a percentage of total loans and other property owned	3.26%	3.40%
Nonperforming assets as a percentage of capital	18.04%	19.54%

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

	March 31, 2022	December 31, 2021
Impaired nonaccrual loans:		
Current as to principal and interest	$ 5,206	$ 4,837
Past due	6,417	6,563
Total	$ 11,623	$ 11,400
Impaired accrual loans:		
Restructured	$ 7,115	$ 8,249
90 days or more past due	–	–
Total	$ 7,115	$ 8,249
Total impaired loans	$ 18,738	$ 19,649
Additional commitments to lend	$ 179	$ 33

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

	March 31, 2022			Three Months Ended March 31, 2022	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 5,851	$ 5,809	$ 1,206	$ 5,855	$ 168
Production and intermediate-term	2,600	3,222	529	2,601	74
Farm-related business	1,099	1,082	336	1,100	31
Rural residential real estate	204	214	64	204	6
Total	$ 9,754	$ 10,327	$ 2,135	$ 9,760	$ 279
With no related allowance for credit losses:					
Real estate mortgage	$ 5,528	$ 6,222	$ –	$ 5,531	$ 158
Production and intermediate-term	3,328	8,950	–	3,331	96
Farm-related business	128	1,077	–	128	4
Total	$ 8,984	$ 16,249	$ –	$ 8,990	$ 258
Total impaired loans:					
Real estate mortgage	$ 11,379	$ 12,031	$ 1,206	$ 11,386	$ 326
Production and intermediate-term	5,928	12,172	529	5,932	170
Farm-related business	1,227	2,159	336	1,228	35
Rural residential real estate	204	214	64	204	6
Total	$ 18,738	$ 26,576	$ 2,135	$ 18,750	$ 537

	December 31, 2021			Year Ended December 31, 2021	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 5,556	$ 5,566	$ 806	$ 5,216	$ 431
Production and intermediate-term	2,196	2,444	537	2,062	170
Farm-related business	1,314	1,296	407	1,233	102
Rural residential real estate	209	216	73	197	16
Total	$ 9,275	$ 9,522	$ 1,823	$ 8,708	719
With no related allowance for credit losses:					
Real estate mortgage	$ 4,805	$ 5,728	$ –	$ 4,511	$ 372
Production and intermediate-term	5,299	11,132	–	4,974	411
Farm-related business	270	1,196	–	254	21
Total	$ 10,374	$ 18,056	$ –	$ 9,739	$ 804
Total impaired loans:					
Real estate mortgage	$ 10,361	$ 11,294	$ 806	$ 9,727	$ 803
Production and intermediate-term	7,495	13,576	537	7,036	581
Farm-related business	1,584	2,492	407	1,487	123
Rural residential real estate	209	216	73	197	$ 16
Total	$ 19,649	$ 27,578	$ 1,823	$ 18,447	1,523

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:							
Balance at December 31, 2021	$ 3,929	$ 7,599	$ 1,388	$ 5	$ 110	$ 6	$ 13,037
Charge-offs	(33)	–	–	–	–	–	(33)
Recoveries	–	8	9	–	–	–	17
Provision for loan losses	363	(712)	(133)	–	2	–	(480)
Balance at March 31, 2022	$ 4,259	$ 6,895	$ 1,264	$ 5	$ 112	$ 6	$ 12,541
Balance at December 31, 2020	$ 3,115	$ 7,427	$ 1,178	$ 38	$ 26	$ 6	$ 11,790
Charge-offs	(23)	(284)	(586)	–	–	–	(893)
Recoveries	–	51	–	–	–	–	51
Provision for loan losses	111	(203)	231	(38)	–	–	101
Balance at March 31, 2021	$ 3,203	$ 6,991	$ 823	$ –	$ 26	$ 6	$ 11,049
Allowance on loans evaluated for impairment:							
Individually	$ 1,206	$ 529	$ 336	$ –	$ 64	$ –	$ 2,135
Collectively	3,053	6,366	928	5	48	6	10,406
Balance at March 31, 2022	$ 4,259	$ 6,895	$ 1,264	$ 5	$ 112	$ 6	$ 12,541
Individually	$ 806	$ 537	$ 407	$ –	$ 73	$ –	$ 1,823
Collectively	3,123	7,062	981	5	37	6	11,214
Balance at December 31, 2021	$ 3,929	$ 7,599	$ 1,388	$ 5	$ 110	$ 6	$ 13,037
Recorded investment in loans evaluated for impairment:							
Individually	$ 11,379	$ 5,928	$ 1,227	$ –	$ 204	$ –	$ 18,738
Collectively	330,995	187,149	38,065	686	9,686	946	567,527
Balance at March 31, 2022	$ 342,374	$ 193,077	$ 39,292	$ 686	$ 9,890	$ 946	$ 586,265
Individually	$ 10,361	$ 7,495	$ 1,584	$ –	$ 209	$ –	$ 19,649
Collectively	328,051	198,701	33,964	685	9,165	946	571,512
Balance at December 31, 2021	$ 338,412	$ 206,196	$ 35,548	$ 685	$ 9,374	$ 946	$ 591,161

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs which occurred during the three months ended March 31, 2022.

	Three Months Ended March 31, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Farm-related business	$ 303	$ –	$ –	$ 303	
Total	$ 303	$ –	$ –	$ 303	
Post-modification:					
Farm-related business	$ 303	$ –	$ –	$ 303	$ –
Total	$ 303	$ –	$ –	$ 303	$ –

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2022	**December 31, 2021**	**March 31, 2022**	**December 31, 2021**
Real estate mortgage	$ 6,231	$ 6,169	$ 190	$ 190
Production and intermediate-term	1,668	2,901	594	631
Farm-related business	110	127	110	127
Total loans	$ 8,009	$ 9,197	$ 894	$ 948
Additional commitments to lend	$ –	$ –		

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At March 31, 2022, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

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

	March 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 7,588	$ 249	$ (6)	$ 7,831	5.78%

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 7,599	$ 832	$ –	$ 8,431	5.78%

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

	March 31, 2022		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	7,588	7,831	5.78
Total	$ 7,588	$ 7,831	5.78%

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

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

	March 31, 2022			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 315	$ (6)	$ –	$ –

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

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

Based on the results of all analyses, the Association has recognized no credit-related other-than-temporary impairment for the periods presented and no accretion to interest income of previously recognized credit impairment was recorded.

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

Equity Investments in Other Farm Credit System Institutions

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The

Association owned 1.96 percent of the issued stock of the Bank as of March 31, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled $39.1 billion and shareholders' equity totaled $2.0 billion. The Bank's earnings were $113 million for the first three months of 2022. In addition, the Association held investments of $428 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

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

	Three Months Ended March 31, 2022	2021
Unrealized gains (losses) on Investments		
Balance at beginning of period	$ 246	$ 264
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	(5)	(5)
Net current period other comprehensive income	(5)	(5)
Balance at end of period	$ 241	$ 259
Employee Benefit Plans:		
Balance at beginning of period	$ (311)	$ (332)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	4	4
Net current period other comprehensive income	4	4
Balance at end of period	$ (307)	$ (328)
Accumulated Other Comprehensive Income		
Balance at beginning of period	$ (65)	$ (68)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	(1)	(1)
Net current period other comprehensive income	(1)	(1)
Balance at end of period	$ (66)	$ (69)

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

	Three Months Ended March 31, 2022	2021	Income Statement Line Item
Investment Securities:			
Amortization	$ 5	$ 5	Interest income on investments
Net amounts reclassified	5	5	
Defined Benefit Pension Plans:			
Periodic pension costs	(4)	(4)	See Note 7.
Net amounts reclassified	(4)	(4)	
Total reclassifications for period	$ 1	$ 1	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation.

Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

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

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

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

	March 31, 2022				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 994	$ 994	$ –	$ –	$ 994
Recurring Assets	$ 994	$ 994	$ –	$ –	$ 994
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 7,619	$ –	$ –	$ 7,619	$ 7,619
Other property owned	195	–	–	215	215
Nonrecurring Assets	$ 7,814	$ –	$ –	$ 7,834	$ 7,834
Other Financial Instruments					
Assets:					
Cash	$ 11	$ 11	$ –	$ –	$ 11
Investments in debt securities, held-to-maturity	7,588	–	–	7,831	7,831
Loans	559,905	–	–	542,700	542,700
Other Financial Assets	$ 567,504	$ 11	$ –	$ 550,531	$ 550,542
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 476,315	$ –	$ –	$ 462,031	$ 462,031
Other Financial Liabilities	$ 476,315	$ –	$ –	$ 462,031	$ 462,031

	December 31, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,251	$ 1,251	$ –	$ –	$ 1,251
Recurring Assets	$ 1,251	$ 1,251	$ –	$ –	$ 1,251
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 7,452	$ –	$ –	$ 7,452	$ 7,452
Other property owned	195	–	–	215	215
Nonrecurring Assets	$ 7,647	$ –	$ –	$ 7,667	$ 7,667
Other Financial Instruments					
Assets:					
Cash	$ 3	$ 3	$ –	$ –	$ 3
Investments in debt securities, held-to-maturity	7,599	–	–	8,431	8,431
Loans	562,637	–	–	560,800	560,800
Other Financial Assets	$ 570,239	$ 3	$ –	$ 569,231	$ 569,234
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 489,921	$ –	$ –	$ 488,553	$ 488,553
Other Financial Liabilities	$ 489,921	$ –	$ –	$ 488,553	$ 488,553

Uncertainty in Measurements of Fair Value

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investments in Debt Securities

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

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

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

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss 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.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide

specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk-adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 7 — Employee Benefit Plans

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

	Three Months Ended March 31,	
	2022	2021
Pension	$ 80	$ 271
401(k)	140	109
Other postretirement benefits	54	58
Total	$ 274	$ 438

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

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

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is remote that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 9, 2022, which was the date the financial statements were issued.