CENTRAL TEXAS FARM CREDIT, ACA

2022
Quarterly Report
Third Quarter

®

For the Quarter Ended September 30, 2022

REPORT OF MANAGEMENT

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

Boyd J. Chambers, Chief Executive Officer
November 9, 2022

Robby A. Halfmann, Chairman, Board of Directors
November 9, 2022

Keith Prater, Chief Financial Officer

November 9, 2022

Third Quarter 2022 Financial Report

Table of Contents

Management's Discussion and Analysis 4

Consolidated Balance Sheet 9

Consolidated Statements of Comprehensive Income 10

Consolidated Statement of Changes in Members' Equity 11

Notes to the Consolidated Financial Statements 12

CENTRAL TEXAS FARM CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Central Texas Farm Credit, ACA (Agricultural Credit Association), 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

2022

In March 2022, a patronage refund of $7,900,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2021, and the amount was based on the Association's 2021 operating results.

2021

In December 2021, the Association received a direct loan patronage of $3,139,643 from the Bank, representing 63 basis points on the average daily balance of the Association's direct loan with the Bank. During, 2021, the Association received an additional $171,285 in patronage payment from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of $75,968 from the Bank, representing 76 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2021, a patronage refund of $7,241,217 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2020, and the amount was based on the Association's 2020 operating results.

2020

In December 2020, the Association received a direct loan patronage of $2,550,306 from the Bank, representing 57 basis points on the average daily balance of the Association's direct loan with the Bank. During 2020, the Association received an additional $197,620 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of $54,749 from the Bank, representing 80 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2020, a patronage refund of $6,800,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2019, and the amount was based on the Association's 2019 operating results.

2019

In December 2019, the Association received a direct loan patronage of $2,039,245 from the Bank, representing 49 basis points on the average daily balance of the Association's direct loan with the Bank. During 2019, the Association received $241,777 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of $64,403 from the Bank, representing 68 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2019, a patronage refund of $6,500,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2018, and the amount was based on the Association's 2018 operating results.

Loan Portfolio

Total loans outstanding at September 30, 2022, including nonaccrual loans, were $645,794,617 compared to $631,826,004 at December 31, 2021, reflecting an increase of 2.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.6 percent at September 30, 2022, compared to 0.3 percent at December 31, 2021.

The Association recorded no recoveries and charge-offs for the quarter ended September 30, 2022, and for the same period in 2021. The Association's allowance for loan losses was 0.3 percent of total loans outstanding as of September 30, 2022, and December 31, 2021, respectively.

Problem Loans

2022

During the first three quarters of 2022, the Association recorded no recoveries and charge-offs.

2021

During 2021, the Association recorded no recoveries and charge-offs.

2020

During the first quarter of 2020, the Association recorded a charge-off in the amount of $290,338, and no recoveries were recorded. The Association recorded a charge-off in the amount of $1,497 and a recovery in the amount of $815 in the second quarter of 2020. During the third quarter of 2020, the Association recorded a charge-off in the amount of $8,034, and no recoveries were recorded. The Association recorded charge-offs in the amount of $133,107 and recoveries in the amount of $9,271 in the fourth quarter of 2020.

2019

During the first quarter of 2019, the Association recorded charge-offs in the amount of $16,434, and no recoveries were recorded. The Association recorded charge-offs in the amount of $43,826 and no recoveries were recorded for the second quarter. In the third quarter of 2019, the Association recorded charge-offs in the amount of $106,772 and no recoveries were recorded. The Association recorded charge-offs in the amount of $296,833, with no recoveries recorded in the fourth quarter.

Territory Conditions

The local economy in our chartered territory continued to remain relatively strong in the third quarter of 2022. The threat of COVID seemed to have subsided at least for a while. Real estate values seemed to have stabilized with residential and land sales slowing some due to rising costs of construction and rapid increases in interest rates.

The majority of the Association's new loans made during the past number of years have been to absentee landowners with diverse income sources looking for a place for a small agricultural operation or recreational use. As a result, the Association has a diversified portfolio that is not heavily dependent on agricultural income. Even those borrowers who are primarily agricultural producers typically have outside income from a spouse's employment, part-time jobs, investments, etc. The above is reflected in the Association's sound credit quality and small number of delinquencies.

According to the September USDA Drought Monitor report, all of the Association's territory was in a drought ranging from severe to extreme. It was reported that only 21 percent of the state had received enough rain to not be considered dry or in drought. The Association's territory had very little rainfall for the year until early September. Pasture conditions improved some in a few areas due to September rains but 56 percent were still considered fair to poor.

The USDA's report "Texas Crop Progress and Condition" for the last week of September 2022, reported cotton 93 percent mature and 72 percent harvested. Wheat acres were reported at 44 percent planted and 9 percent emerged.

Cattle markets were up some in the third quarter. Live cattle futures were trading in the mid $140s/cwt at the end of September and forward contracts were higher with December at $150/cwt and April 2023 showing $158/cwt. Feeder cattle had gotten as high as $187/cwt in the third quarter but fell back to $177/cwt in late September. Forward contracts indicate prices headed up with November at $180/cwt and $190/cwt by May 2023.

Class III milk futures continued down in the third quarter settling just under $20/cwt toward the end of September. That's down from $24/cwt in early June. Forward contracts suggest pricing will be in the $21/cwt range through the end of 2022.

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	**$ 3,874,999**	**100.0%**	$ 1,860,250	100.0%
Total	**$ 3,874,999**	**100.0%**	$ 1,860,250	100.0%

Results of Operations

The Association had net income of $3,312,067 and $9,036,181 for the three and nine months ended September 30, 2022, as compared to net income of $2,773,131 and $7,493,623 for the same period in 2021, reflecting an increase of 19.4 percent and 20.6 percent, respectively. Net interest income was $4,615,737 and $13,576,563 for the three and nine months ended September 30, 2022, compared to $4,245,913 and $12,462,944 for the same period in 2021.

.

	Nine Months Ended			
	September 30, 2022		September 30, 2021	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 641,900,122**	**$ 22,659,036**	$ 593,754,489	$ 19,778,674
Interest-bearing liabilities	**533,031,481**	**9,082,473**	486,638,624	7,315,730
Impact of capital	**$ 108,868,641**		$ 107,115,865	
Net interest income		**$ 13,576,563**		$ 12,462,944

	2022 Average Yield	2021 Average Yield
Yield on loans	**4.72%**	4.45%
Cost of interest-bearing liabilities	**2.28%**	2.01%
Interest rate spread	**2.44%**	2.44%
Net interest income as a percentage of average earning assets	**2.83%**	2.81%

	Nine months ended: September 30, 2022 vs. September 30, 2021		
	Increase due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 1,603,791**	**$ 1,276,571**	**$ 2,880,362**
Interest expense	**697,422**	**1,069,321**	**1,766,743**
Net interest income	**$ 906,369**	**$ 207,250**	**$ 1,113,619**

Interest income for the nine months ended September 30, 2022, increased by $2,880,362, or 14.6 percent, from the same period of 2021, primarily due to an increase in average loan volume and an increase in yields on earning. Interest expense for the nine months ended September 30, 2022, increased by $1,766,743, or 24.2 percent, from the same period of 2021 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the nine months ended September 30, 2022 was $641,900,122, compared to $593,754,489 in the third quarter of 2021. The average net interest rate spread on the loan portfolio for the third quarter of 2022 and 2021 was 2.44 percent.

The Association's return on average assets for the nine months ended September 30, 2022, was 1.82 percent compared to 1.63 percent for the same period in 2021. The Association's return on average equity for the nine months ended September 30, 2022, was 9.75 percent, compared to 8.34 percent for the same period in 2021.

Liquidity and Funding Sources

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

	September 30, 2022	December 31, 2021
Note payable to the Bank	**$ 535,385,058**	$ 519,237,475
Accrued interest on note payable	**1,232,893**	784,241
Total	**$ 536,617,951**	$ 520,021,716

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 $535,385,058 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 2.83 percent at September 30, 2022. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2021, is due to the Association's increase in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $107,509,001 at September 30, 2022. The maximum amount the Association may borrow from the Bank as of September 30, 2022, was $650,979,984 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources

The Association's capital position increased by $8,953,732 at September 30, 2022, compared to December 31, 2021. The Association's debt as a percentage of members' equity was 4.20:1 as of September 30, 2022, compared to 4.45:1 as of December 31, 2021.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, Tier 1 capital, and total capital risk-based capital ratios. The new regulations also added Tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2022, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

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

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost, which reflects management's estimate of expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to held-to-maturity securities 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 Association 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 impact of adoption of the standard is expected to increase the allowance for credit losses related to loans and unfunded commitments by $470,000-$1,250,000. The increase in the allowance is primarily driven by a conservative prepayment assumption and the calculation now covering the life of the loan. This estimate will ultimately depend on the nature of the loan portfolio, final validation of models and methodologies, management's judgments, including macroeconomic conditions and related forecasts at the adoption date of January 1, 2023.

Relationship With the Farm Credit Bank of Texas

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Consolidated Financial Statements contained in the 2021 Annual Report of Central Texas Farm Credit, 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 Central Texas Farm Credit, ACA, 1026 Early Boulevard, Early, Texas, 76802, or calling (325) 643-5563. The annual and quarterly stockholder reports for the Association are also available on its website at *www.centraltexasfarmcredit.com.* Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *Keith.Prater@farmcreditbank.com.*

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	September 30, 2022 (unaudited)	December 31, 2021
ASSETS		
Cash	**$ 1,560**	$ 2,960
Loans	**645,794,617**	631,826,004
Less: allowance for loan losses	**1,680,281**	1,648,857
Net loans	**644,114,336**	630,177,147
Accrued interest receivable	**6,885,349**	6,307,042
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**9,810,495**	9,810,495
Other	**671,377**	561,787
Premises and equipment, net	**5,509,226**	5,461,359
Other assets	**2,707,523**	316,131
Total assets	**$ 669,699,866**	$ 652,636,921
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 535,385,058**	$ 519,237,475
Accrued interest payable	**1,232,893**	784,241
Dividends payable	**-**	7,900,000
Other liabilities	**4,401,744**	4,988,766
Total liabilities	**541,019,695**	532,910,482
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,050,775**	2,117,870
Unallocated retained earnings	**126,700,183**	117,664,002
Accumulated other comprehensive loss	**(70,787)**	(55,433)
Total members' equity	**128,680,171**	119,726,439
Total liabilities and members' equity	**$ 669,699,866**	$ 652,636,921

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	**2022**	2021
INTEREST INCOME				
Loans	**$ 8,194,902**	$ 6,749,883	**$ 22,659,036**	$ 19,778,674
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**3,579,165**	2,503,970	**9,082,473**	7,315,730
Net interest income	**4,615,737**	4,245,913	**13,576,563**	12,462,944
PROVISION FOR LOAN LOSSES	**(157,825)**	(61,051)	**39,802**	337,475
Net interest income after provision for loan losses	**4,773,562**	4,306,964	**13,536,761**	12,125,469
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**837,569**	631,032	**2,419,293**	1,822,199
Loan fees	**34,377**	58,157	**129,590**	212,606
Financially related services income	**1,100**	1,007	**5,869**	5,433
Gain (loss) on sale of premises and equipment, net	**-**	-	**(1,194)**	7,500
Other noninterest income	**-**	255	**48,870**	28,892
Total noninterest income	**873,046**	690,451	**2,602,428**	2,076,630
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,403,038**	1,407,253	**4,177,724**	4,234,412
Directors' expense	**79,865**	62,171	**175,611**	116,987
Purchased services	**114,473**	129,684	**279,391**	304,439
Travel	**95,662**	75,925	**203,615**	162,612
Occupancy and equipment	**96,606**	76,641	**381,667**	332,070
Communications	**35,940**	32,491	**112,287**	100,783
Advertising	**69,523**	26,909	**194,307**	79,865
Public and member relations	**41,184**	84,528	**232,765**	297,176
Supervisory and exam expense	**63,683**	61,205	**186,093**	167,943
Insurance Fund premiums	**251,710**	182,483	**861,661**	650,717
Other components of net periodic postretirement benefit cost	**20,061**	22,048	**60,183**	66,145
Other noninterest expense	**62,796**	62,946	**237,704**	195,327
Total noninterest expenses	**2,334,541**	2,224,284	**7,103,008**	6,708,476
NET INCOME	**3,312,067**	2,773,131	**9,036,181**	7,493,623
Other comprehensive income:				
Change in postretirement benefit plans	**(5,118)**	(2,892)	**(15,354)**	(8,676)
COMPREHENSIVE INCOME	**$ 3,306,949**	$ 2,770,239	**$ 9,020,827**	$ 7,484,947

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2020	$ 2,208,715	$ 114,499,160	$ (216,830)	$ 116,491,045
Comprehensive income	-	7,493,623	(8,676)	7,484,947
Capital stock/participation certificates and allocated retained earnings issued	285,265	-	-	285,265
Capital stock/participation certificates and allocated retained earnings retired	(353,880)	-	-	(353,880)
Patronage refunds:				
Cash	-	(41,217)	-	(41,217)
Balance at September 30, 2021	$ 2,140,100	$ 121,951,566	$ (225,506)	$ 123,866,160
Balance at December 31, 2021	$ 2,117,870	$ 117,664,002	$ (55,433)	$ 119,726,439
Comprehensive income	-	9,036,181	(15,354)	9,020,827
Capital stock/participation certificates and allocated retained earnings issued	231,497	-	-	231,497
Capital stock/participation certificates and allocated retained earnings retired	(298,592)	-	-	(298,592)
Patronage refunds:				
Cash	-	-	-	-
Balance at September 30, 2022	**$ 2,050,775**	**$ 126,700,183**	**$ (70,787)**	**$ 128,680,171**

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

CENTRAL TEXAS FARM CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Central Texas Farm Credit, 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 Baylor, Brown, Callahan, Coke, Coleman, Comanche, Concho, Haskell, Irion, Jones, Knox, McCulloch, Menard, Mills, Reagans, Runnels, San Saba, Sterling, Stonewall, and Tom Green in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying consolidated 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 consolidated audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2022. Descriptions of the significant accounting policies are included in the 2021 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

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

In 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 Association 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 impact of adoption of the standard is expected to increase the allowance for credit losses related to loans and unfunded commitments by $470,000-$1,250,000. The increase in the allowance is primarily driven by a conservative prepayment assumption and the calculation now covering the life of the loan. This estimate will ultimately depend on the nature of the loan portfolio, final validation of models and methodologies, management’s judgments, including macroeconomic conditions and related forecasts at the adoption date of January 1, 2023.

The 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 may have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2022 Amount**	December 31, 2021 Amount
Production agriculture:		
Real estate mortgage	**$ 458,055,939**	$ 432,840,207
Production and intermediate term	**73,628,553**	91,867,182
Agribusiness:		
Processing and marketing	**53,315,968**	50,768,509
Farm-related business	**25,056,501**	26,831,944
Loans to cooperatives	**6,335,878**	3,135,393
Communication	**13,434,964**	13,393,063
Energy	**6,452,643**	6,862,903
Water and waste water	**4,605,521**	801,802
International	**4,234,499**	4,233,783
Rural residential real estate	**674,151**	1,091,218
Total	**$ 645,794,617**	$ 631,826,004

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 23,500,229	$ 16,220,336	$ -	$ -	$ 23,500,229	$ 16,220,336
Agribusiness	64,312,003	3,870,403	-	-	64,312,003	3,870,403
Production and intermediate term	18,882,071	6,796,854	-	-	18,882,071	6,796,854
Communication	13,434,964	-	-	-	13,434,964	-
Energy	6,452,643	-	-	-	6,452,643	-
Water and waste water	4,605,521	-	-	-	4,605,521	-
International	4,234,499	-	-	-	4,234,499	-
Total	$135,421,930	$ 26,887,593	$ -	$ -	$135,421,930	$ 26,887,593

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. The Association had no balances of ACPs 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:		
Production and intermediate term	**$ 1,883,298**	$ -
Energy	**1,760,866**	1,826,585
Real estate mortgage	**230,835**	33,665
Total nonperforming assets	**$ 3,874,999**	$ 1,860,250

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	**98.9** %	98.8 %
OAEM	**0.7**	0.5
Substandard/doubtful	**0.4**	0.7
	100.0	100.0
Production and intermediate term		
Acceptable	**97.5**	97.1
OAEM	**2.4**	2.2
Substandard/doubtful	**0.1**	0.7
	100.0	100.0
Agribusiness		
Acceptable	**94.1**	97.8
OAEM	**1.6**	-
Substandard/doubtful	**4.3**	2.2
	100.0	100.0
Energy and water/waste water		
Acceptable	**84.1**	73.4
OAEM	**-**	-
Substandard/doubtful	**15.9**	26.6
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
International		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**97.9**	98.2
OAEM	**1.0**	0.6
Substandard/doubtful	**1.1**	1.2
	100.0 %	100.0 %

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

September 30, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	**$ 4,521,284**	**$ 202,670**	**$ 4,723,954**	**$ 458,860,046**	**$ 463,584,000**	**$ -**
Production and intermediate term	**488,582**	**-**	**488,582**	**74,100,181**	**74,588,763**	**-**
Processing and marketing	**-**	**-**	**-**	**53,463,796**	**53,463,796**	**-**
Farm-related business	**-**	**-**	**-**	**25,211,816**	**25,211,816**	**-**
Communication	**-**	**-**	**-**	**13,442,376**	**13,442,376**	**-**
Loans to cooperatives	**-**	**-**	**-**	**6,357,394**	**6,357,394**	**-**
Energy	**-**	**1,248,898**	**1,248,898**	**5,242,589**	**6,491,487**	**-**
Water and waste water	**-**	**-**	**-**	**4,611,729**	**4,611,729**	**-**
International	**-**	**-**	**-**	**4,253,417**	**4,253,417**	**-**
Rural residential real estate	**-**	**-**	**-**	**675,188**	**675,188**	**-**
Total	**$ 5,009,866**	**$ 1,451,568**	**$ 6,461,434**	**$ 646,218,532**	**$ 652,679,966**	**$ -**

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	$ 411,053	$ -	$ 411,053	$ 437,580,295	$ 437,991,348	$ -
Production and intermediate term	60,044	-	60,044	92,731,044	92,791,088	-
Processing and marketing	-	-	-	50,858,965	50,858,965	-
Farm-related business	-	-	-	26,956,802	26,956,802	-
Communication	-	-	-	13,395,104	13,395,104	-
Loans to cooperatives	-	-	-	3,136,410	3,136,410	-
Energy	-	1,248,898	1,248,898	5,617,274	6,866,172	-
Water and waste water	-	-	-	801,838	801,838	-
International	-	-	-	4,241,460	4,241,460	-
Rural residential real estate	-	-	-	1,093,859	1,093,859	-
Total	$ 471,097	$ 1,248,898	$ 1,719,995	$ 636,413,051	$ 638,133,046	$ -

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 Association had no troubled debt restructured loans. In restructuring where principal is forgiven, the amount of 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 predominant form of concession granted for troubled debt restructuring includes extension of the term. Other types of modifications include principal or accrued interest reductions, interest rate decreases, and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral, or new borrower guarantees, in which the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

Additional impaired loan information is as follows:

	September 30, 2022			December 31, 2021		
	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -
Production and intermediate term	1,883,298	1,891,487	95,361	-	-	-
Energy and water/waste water	1,760,866	1,761,906	372,917	1,826,585	1,827,624	372,917
Total	$ 3,644,164	$ 3,653,393	$ 468,278	$ 1,826,585	$ 1,827,624	$ 372,917
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$ 230,835	$ 230,835	$ -	$ 33,665	$ 33,665	$ -
Production and intermediate term	-	-	-	-	-	-
Energy and water/waste water	-	-	-	-	-	-
Total	$ 230,835	$ 230,835	$ -	$ 33,665	$ 33,665	$ -
Total impaired loans:						
Real estate mortgage	$ 230,835	$ 230,835	$ -	$ 33,665	$ 33,665	$ -
Production and intermediate term	1,883,298	1,891,487	95,361	-	-	-
Energy and water/waste water	1,760,866	1,761,906	372,917	1,826,585	1,827,624	372,917
Total	$ 3,874,999	$ 3,884,228	$ 468,278	$ 1,860,250	$ 1,861,289	$ 372,917

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

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2022		September 30, 2021		September 30, 2022		September 30, 2021	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Production and intermediate term	1,208,776	22,017	-	-	1,197,325	29,059	-	-
Energy and water/waste water	1,762,652	-	1,885,751	-	1,787,410	-	1,181,053	-
Total	$ 2,971,428	$ 22,017	$ 1,885,751	$ -	$ 2,984,735	$ 29,059	$ 1,181,053	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	$ 231,612	$ -	$ 36,460	$ -	$ 104,883	$ 5,768	$ 38,137	$ -
Production and intermediate term	-	-	-	-	-	-	-	-
Energy and water/waste water	-	-	-	-	-	-	-	-
Total	$ 231,612	$ -	$ 36,460	$ -	$ 104,883	$ 5,768	$ 38,137	$ -
Total impaired loans:								
Real estate mortgage	$ 231,612	$ -	$ 36,460	$ -	$ 104,883	$ 5,768	$ 38,137	$ -
Production and intermediate term	1,208,776	22,017	-	-	1,197,325	29,059	-	-
Energy and water/waste water	1,762,652	-	1,885,751	-	1,787,410	-	1,181,053	-
Total	$ 3,203,040	$ 22,017	$ 1,922,211	$ -	$ 3,089,618	$ 34,827	$ 1,219,190	$ -

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	International	Total
Allowance for Credit Losses:								
Balance at June 30, 2022	$ 367,069	$ 305,479	$ 690,747	$ 32,384	$ 387,389	$ 286	$ 9,021	$ 1,792,375
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(487)	4,048	(163,326)	(31)	(333)	18	2,286	(157,825)
Other	10	23,842	24,379	(223)	(3)	-	(2,274)	45,731
Balance at September 30, 2022	$ 366,592	$ 333,369	$ 551,800	$ 32,130	$ 387,053	$ 304	$ 9,033	$ 1,680,281
Balance at December 31, 2021	$ 359,949	$ 405,304	$ 459,979	$ 32,536	$ 380,728	$ 1,386	$ 8,975	$ 1,648,857
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	6,763	(55,208)	84,948	(134)	2,143	(1,082)	2,372	39,802
Other	(120)	(16,727)	6,873	(272)	4,182	-	(2,314)	(8,378)
Balance at September 30, 2022	$ 366,592	$ 333,369	$ 551,800	$ 32,130	$ 387,053	$ 304	$ 9,033	$ 1,680,281
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ 95,361	$ -	$ 372,917	$ -	$ -	$ 468,278
Collectively evaluated for impairment	366,592	333,369	456,439	32,130	14,136	304	9,033	1,212,003
Balance at September 30, 2022	$ 366,592	$ 333,369	$ 551,800	$ 32,130	$ 387,053	$ 304	$ 9,033	$ 1,680,281
Balance at June 30, 2021	$ 296,721	$ 341,196	$ 501,466	$ 34,283	$ 450,628	$ 604	$ 9,364	$ 1,634,262
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	37,933	(14,399)	(28,431)	(5,488)	(50,104)	(466)	(96)	(61,051)
Other	-	42,153	(3,348)	(897)	(3,394)	413	(294)	34,633
Balance at September 30, 2021	$ 334,654	$ 368,950	$ 469,687	$ 27,898	$ 397,130	$ 551	$ 8,974	$ 1,607,844
Balance at December 31, 2020	$ 263,100	$ 387,617	$ 437,456	$ 37,003	$ 119,964	$ 364	$ -	$ 1,245,504
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	71,554	(26,986)	10,839	(8,728)	280,025	341	10,430	337,475
Other	-	8,319	21,392	(377)	(2,859)	(154)	(1,456)	24,865
Balance at September 30, 2021	$ 334,654	$ 368,950	$ 469,687	$ 27,898	$ 397,130	$ 551	$ 8,974	$ 1,607,844
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 379,681	$ -	$ -	$ 379,681
Collectively evaluated for impairment	334,654	368,950	469,687	27,898	17,449	551	8,974	1,228,163
Balance at September 30, 2021	$ 334,654	$ 368,950	$ 469,687	$ 27,898	$ 397,130	$ 551	$ 8,974	$ 1,607,844

	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	$ 463,584,000	$ 74,588,763	$ 85,033,006	$ 13,442,376	$ 11,103,216	$ 675,188	$ 4,253,417	$ 652,679,966
Individually evaluated for impairment	$ 230,835	$ -	$ 1,883,298	$ -	$ 1,760,866	$ -	$ -	$ 3,874,999
Collectively evaluated for impairment	$ 463,353,165	$ 74,588,763	$ 83,149,708	$ 13,442,376	$ 9,342,350	$ 675,188	$ 4,253,417	$ 648,804,967
Ending Balance at December 31, 2021	$ 437,991,348	$ 92,791,088	$ 80,952,177	$ 13,395,104	$ 7,668,010	$ 1,093,859	$ 4,241,460	$ 638,133,046
Individually evaluated for impairment	$ 33,665	$ -	$ -	$ -	$ 1,826,585	$ -	$ -	$ 1,860,250
Collectively evaluated for impairment	$ 437,957,683	$ 92,791,088	$ 80,952,177	$ 13,395,104	$ 5,841,425	$ 1,093,859	$ 4,241,460	$ 636,272,796

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Operating lease cost	**$ 4,228**	$ 4,228	**$ 12,684**	$ 12,684
Net lease cost	**$ 4,228**	$ 4,228	**$ 12,684**	$ 12,684

Other information related to leases was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	**$ 5,670**	$ 5,670	**$ 17,010**	$ 16,730

Lease term and discount rate are as follows:

	September 30, 2022	December 31, 2021
Weighted average remaining lease term in years		
Operating leases	$ 1.58	$ 2.33
Weighted average discount rate		
Operating leases	2.83%	1.76%

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

	Operating Leases
2022 (excluding the nine months ended 9/30/22)	$ 5,670
2023	23,240
2024	7,840
2025	-
2026	-
Thereafter	-
Total	$ 36,750

NOTE 4 — CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of September 30, 2022
Common equity tier 1 ratio	7.00%	16.86%
Tier 1 capital ratio	8.50%	16.86%
Total capital ratio	10.50%	17.16%
Permanent capital ratio	7.00%	16.91%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	17.58%
UREE leverage ratio	1.50%	17.27%

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

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 123,156,362	$ 123,156,362	$ 123,156,362	$ 123,156,362
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,056,214	2,056,214	2,056,214	2,056,214
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	2,054,400	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(9,810,495)	(9,810,495)	(9,810,495)	(9,810,495)
	$ 115,402,081	$ 115,402,081	$ 117,456,481	$ 115,402,081
Denominator:				
Risk-adjusted assets excluding allowance	$ 694,228,393	$ 694,228,393	$ 694,228,393	$ 694,228,393
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(9,810,495)	(9,810,495)	(9,810,495)	(9,810,495)
Allowance for loan losses	-	-	-	(1,787,830)
	$ 684,417,898	$ 684,417,898	$ 684,417,898	$ 682,630,068

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 123,156,362	$ 123,156,362
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	2,056,214	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(9,810,495)	(9,810,495)
	$ 115,402,081	$ 113,345,867
Denominator:		
Total Assets	$ 669,831,274	$ 669,831,274
Regulatory Adjustments and Deductions:		
Regulatory deductions included in Tier 1 capital	(13,508,236)	(13,508,236)
	$ 656,323,038	$ 656,323,038

An additional component of equity is accumulated other comprehensive loss, which is reported net of taxes, is as follows:

Accumulated Other Comprehensive Loss

September 30, 2022	**Net of Tax**
Nonpension postretirement benefits	**$ (70,787)**
Total	**$ (70,787)**

September 30, 2021	Net of Tax
Nonpension postretirement benefits	$ (225,506)
Total	$ (225,506)

The Association's accumulated other comprehensive loss relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits and of actuarial 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 loss for the nine months ended September 30:

	2022	2021
Accumulated other comprehensive loss at January 1	**$ (55,433)**	$ (216,830)
Amortization of prior service credits included in salaries and employee benefits	**(15,354)**	(8,676)
Other comprehensive loss, net of tax	**(15,354)**	(8,676)
Accumulated other comprehensive loss at September 30	**$ (70,787)**	$ (225,506)

NOTE 5 — INCOME TAXES:

Central Texas Farm Credit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Central Texas Farm Credit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Central Texas Farm Credit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. The Association's valuation allowance was $673,493 as of the quarter ended September 30, 2022 for no available tax benefit as of that point in time.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 to the 2021 Annual Report to Stockholders for a more complete description.

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

September 30, 2022	**Fair Value Measurement Using**			**Total Fair Value**	**Total Gains (Losses)**
	Level 1	**Level 2**	**Level 3**		
Assets:					
Loans*	**$ -**	**$ -**	**$ 3,175,886**	**$ 3,175,886**	**$ -**

December 31, 2021	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans*	$ -	$ -	$ 1,453,667	$ 1,453,667	$ -

*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.

Valuation Techniques

As more fully discussed in Note 13 to the 2021 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2021 Annual Report to Stockholders.

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.

Loans

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

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

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

Commitments to Extend Credit

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

NOTE 7 — 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 30:

Three months ended September 30:

	Other Benefits	
	2022	2021
Service cost	**$ 8,755**	$ 9,214
Interest cost	**16,424**	15,726
Amortization of prior service credits	**(5,118)**	(2,892)
Net periodic benefit cost	**$ 20,061**	$ 22,048

Nine months ended September 30:

	Other Benefits	
	2022	2021
Service cost	**$ 26,263**	$ 27,643
Interest cost	**49,272**	47,178
Amortization of prior service credits	**(15,354)**	(8,676)
Net periodic benefit cost	**$ 60,181**	$ 66,145

The Association’s liability for the unfunded accumulated obligation for these benefits at September 30, 2022, was $2,137,572 and is included in “Other liabilities” on the Consolidated Balance Sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "Change in postretirement benefit plans" in the Consolidated Statements of Comprehensive Income.

The structure of the District’s defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2021, that it expected to contribute $93,820 to the District’s defined benefit pension plan in 2022. As of September 30, 2022, $60,183 of contributions have been made. The Association presently anticipates contributing an additional $20,055 to fund the defined benefit pension plan in 2022 for a total of $80,238.

NOTE 8 — 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 9 — SUBSEQUENT EVENTS:

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