
Horizon Farm Credit, ACA
THIRD QUARTER 2022

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2022 quarterly report of Horizon Farm Credit, 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 and regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Thomas H. Truitt, Jr.
Chief Executive Officer



Brian E. Rosati
Chief Financial Officer



Shawn D. Wolfinger
Chair of the Board

November 8, 2022

Horizon Farm Credit, 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 September 30, 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 September 30, 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 September 30, 2022.



Thomas H. Truitt, Jr.
Chief Executive Officer



Brian E. Rosati
Chief Financial Officer

November 8, 2022

Horizon Farm Credit, 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 Horizon Farm Credit, ACA (Association) for the period ended September 30, 2022. The comments contained in this report 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.

MERGER ACTIVITY

We are committed to keeping our focus on creating an Association that fosters a customer-centric mindset, as well as providing consistent and reliable credit to the farmers and communities within our five-state territory. A merger can enhance the strength of leadership and other exceptional human talents to enhance our ability to operate efficiently and provide additional value to our members.

Effective July 1, 2022, AgChoice Farm Credit, ACA, merged with and into MidAtlantic Farm Credit, ACA after the Farm Credit Administration (FCA) granted final approval of the merger. MidAtlantic Farm Credit, ACA then changed its name to Horizon Farm Credit, ACA and is headquartered in Mechanicsburg, PA.

The effects of the merger are included in our financial position, results of operations and related metrics beginning July 1, 2022. Prior year results have not been restated to reflect the impact of the merger. Results of operations and equity reflect the results of MidAtlantic Farm Credit, ACA, prior to July 1, 2022, and the merged Association after July 1, 2022. Upon the closing of the merger, loans increased \$2.6 billion, liabilities increased \$2.2 billion and equity increased \$438.6 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations. See further information regarding the merger within *Note 9 – Merger Activity*.

The merger was accounted for under the acquisition method of accounting in accordance with the FASB Accounting Standards Codification (ASC) 805 Business Combinations (ASC 805). As the accounting acquirer, MidAtlantic Farm Credit recognized the identifiable assets acquired and liabilities assumed in the

Merger as of the Effective Date at their respective fair values. The fair value of the net identifiable assets was substantially equal to the fair value of the equity interest exchanged in the merger. As a result, no goodwill was recorded.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for the financing of short-term and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio encompasses a well-diversified range of agricultural commodities, including cash grains, dairy, livestock, poultry, forest products, various crops, and also includes part-time and rural home loans. In addition, the Association provides loans to lessors of agricultural real estate. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, impacts the level of dependency on any particular commodity.

Comparison of September 30, 2022 to December 31, 2021

Loans at September 30, 2022 totaled \$5,895,503 compared to \$3,040,890 at December 31, 2021, an increase of \$2,854,613 (93.87 percent) during the nine months. The increase was primarily due to the merger with AgChoice Farm Credit. The Association's allowance for loan losses of \$23,308 decreased \$6,972 (23.03 percent) during the first nine months of 2022, resulting in net loans (loans less allowance for loan losses) of \$5,872,195 and \$3,010,610 at September 30, 2022 and December 31, 2021, respectively. Nonaccrual loans decreased \$2,004 (5.32 percent) from \$37,648 at December 31, 2021 to \$35,644 at September 30, 2022, resulting in a decrease in the ratio of nonaccrual loans to total loans from 1.24 percent to 0.60 percent. In addition, Other property owned decreased from \$1,368 at December 31, 2021 (seven properties) to \$735 at September 30, 2022 (four properties).

There is an inherent risk in the extension of any type of credit and, accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio. Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. The allowance for loan losses represented 0.40 percent and 1.00 percent of loans, and 65.39 percent and 80.43 percent of nonaccrual loans, at September 30, 2022 and December 31, 2021, respectively. See also Note 2, *Loans and*

Allowance for Loan Losses, in the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

For the three months ended September 30, 2022

Net income for the three months ended September 30, 2022 totaled \$34,697, an increase of \$20,930 (152.03 percent) compared to the three months ended September 30, 2021. Our stronger earnings primarily reflect the favorable impact of the merger on net interest income due to increased loan volume, partially offset by higher operating expenses. Major changes in the components of net income are identified as follows:

- Net interest income for the three months was up \$23,277 (119.25 percent); there are several key factors impacting the results. The change in net interest income was primarily due to earnings on acquired loans due to the merger with AgChoice Farm Credit. The increase in net interest income is attributable to (a) an \$18,825 increase due to both a change in interest rate and a \$2.9 billion increase in the daily balance of accruing portfolio volume due to the merger, as well as the impact of the GAAP fair market value adjustments, (b) a favorable variance of \$4,240 due to increased earnings on free cash held at the Bank, partially offset by (c) a \$212 decrease in net interest recognized attributable to nonaccruing loans.
- The Association recorded no provision for loan losses in the third quarter of 2022 and 2021.
- “Patronage refunds from other Farm Credit institutions” on the Consolidated Statements of Comprehensive Income of \$9,809 and \$4,370, respectively, includes accruals for the quarter ended September 30, 2022 and 2021, based on third quarter operations only; management anticipates additional income for the remaining quarters in 2022. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The merger with AgChoice Farm Credit increased our notes payable balance which increased patronage income.
- Noninterest income increase in the third quarter of \$6,119 (92.36 percent) included, (a) a \$5,439 increase in Patronage related income, (b) an increase of \$423 due to higher gains on other transactions and premises and equipment, net, in the current year compared to the prior year, (c) an increase of \$381 from Loan fees, (d) an increase of \$41 from Fees for financially related services, partially offset by (e) a

decrease of \$143 due to decreased gains on sales of rural home loans, net, and (f) a decrease of \$22 from other noninterest income.

- Noninterest expense for the third quarter of 2022 was \$20,504 as compared to \$12,259 for the same period of 2021 or an increase of \$8,245 (67.26 percent). The change in Noninterest expense was primarily a result of the merger with AgChoice Farm Credit.

The three month increase of \$3,600 (41.05 percent) for Salaries and employee benefits includes an increase of salaries due to the increase in headcount as a result of the merger and merger related expenses of \$3,991, unfavorable employee benefits of \$834 due to merger related expenses, and favorable deferred personnel costs of \$1,225. See also Note 7, *Employee Benefit Plans*, in the Notes to the Consolidated Financial Statements.

Insurance Fund premiums expense increased \$1,452 (161.69 percent) due to the merger with AgChoice Farm Credit in conjunction with an increase in loan volume during third quarter of 2022, and increase in premium rate. The Farm Credit System Insurance Corporation (FCSIC) premium was 0.20 and 0.16 percent for the third quarters of 2022 and 2021, respectively.

Purchased services and Data processing expenses increased \$675 (127.12 percent) during the third quarter of 2022 as compared to the third quarter of 2021. The increase is principally due to purchased services fees, hardware and software, and merger related expenses.

Occupancy and equipment and Other operating expenses increased \$2,427 (113.78 percent) from \$2,133 to \$4,560, which includes expense increases in advertising, travel, operating costs, and merger related expenses.

- Decreased gains on other property owned, net of \$91. The decrease is primarily related to less OPO expenses in the third quarter of 2022 as compared to the third quarter of 2021, as well as less OPO sales in the third quarter of 2022.
- The Association recorded a Provision for income taxes of \$339 and \$118 for the third quarters of 2022 and 2021, respectively.

For the nine months ended September 30, 2022

Net income for the nine months ended September 30, 2022 totaled \$63,715 or \$24,513 (62.53 percent) more than the nine months ended September 30, 2021. Our stronger earnings primarily reflect the favorable impact of the merger on net interest income due to increased loan volume, partially offset

by higher operating expenses. Major changes in the components of net income are identified as follows:

- Net interest income for the nine months was up \$24,111 (41.92 percent); there are several key factors impacting the results. The change in net interest income was primarily due to earnings on acquired loans due to the merger with AgChoice Farm Credit. The increase in net interest income is attributable to (a) a \$20,273 increase due to both a change in interest rate and a \$3.0 billion increase in the balance of accruing portfolio volume due to the merger, as well as the GAAP fair market value adjustments, and (b) a favorable variance of \$4,519 due to increased earnings on free cash held at the Bank, partially offset by (c) a \$681 decrease in net interest recognized attributable to nonaccruing loans.
- The Association recorded a reversal of allowance for loan losses of \$7,000 in the first nine months of 2022. No provision for loan losses was recorded in the first nine months of 2021. The Association's nonaccrual loans to total loans decreased from 1.24 percent at December 31, 2021 to 0.60 percent of the portfolio at September 30, 2022, and decreased from 1.21 percent at September 30, 2021. See also Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.
- "Patronage refunds from other Farm Credit institutions" on the Consolidated Statements of Comprehensive Income is \$18,927 as compared to \$12,845 for the nine months ended September 30, 2022 and 2021. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The merger with AgChoice Farm Credit increased our notes payable balance which increased patronage income.
- Noninterest income for the nine months was up \$5,235 (27.51 percent). The increase is primarily related to (a) an increase of \$6,082 in Patronage related income, (b) an increase of \$39 due to higher gains on other transactions and premises and equipment, net, partially offset by (c) a decrease of \$385 from Loan fees which is primarily related to the Paycheck Protection Program (PPP) loan fees received in 2021, (d) decrease of \$332 due to decreased gains on sales of rural home loans, net, (e) a decrease of \$131 from Fees for financially related services, and (f) a decrease of \$38 in Other noninterest income.
- Noninterest expense increased \$11,612 (31.38 percent) for the first nine months of 2022 as compared to 2021. The change in Noninterest

expense was primarily a result of the merger with AgChoice Farm Credit.

The year-to-date increase for Salaries and employee benefits of \$4,743 (18.16 percent) includes (a) an increase of \$6,186 (32.12 percent) in salaries due to annual compensation increases, hiring new staff, and the merger with AgChoice Farm Credit, (b) favorable deferred personnel costs of \$926, and (c) favorable employee benefits of \$517.

Insurance Fund premiums expense increased \$2,016 (76.51 percent) due to (a) the merger with AgChoice Farm Credit in conjunction with an increase in loan volume during the first nine months of 2022 as compared to 2021, and (b) the Farm Credit System Insurance Corporation (FCSIC) premium rate was 0.20 and 0.16 percent for the first nine months of 2022 and 2021, respectively.

Purchased services and Data processing expenses increased \$1,746 (103.19 percent) during the first nine months of 2022 as compared to 2021. The increase is principally due to purchased services fees, hardware and software, and merger related expenses.

Occupancy and equipment and Other operating expenses increased \$3,419 (53.10 percent) from \$6,439 to \$9,858, which includes increases in advertising, travel, operating costs, and merger related expenses.

- Gains on other property owned, net increased \$312. The increase is primarily related to more gains on OPO sales, as well as less expenses for the first nine months of 2022 as compared to 2021.
- The Association recorded a Provision for income taxes of \$555 and \$334, for the nine months ended September 30, 2022 and 2021, respectively.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The Association utilizes the variable rate note 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. Notes payable to the Bank at September 30, 2022 was \$4,783,867 compared to \$2,338,902 at December 31, 2021. The increase during the period of \$2,444,965 (104.53 percent) corresponds to (a) the increase in the Association's

loan volume, (b) receipt of prior year Bank patronage, (c) current year net cash generated from operating activities, offset by (d) patronage payments to stockholders. The increase is also due to the acquisition of loans in conjunction with the merger with AgChoice Farm Credit.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2022 that would affect minimum stock purchases or have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at September 30, 2022 totaled \$1,120,182, an increase of \$448,891 (66.87 percent) compared to total members' equity of \$671,291 at December 31, 2021. This increase is attributed to (a) Total Comprehensive income of \$63,725 for the first nine months ended September 30, 2022, (b) net member capital stock/participation certificates retired of \$215, (c) an estimated \$49,816 cash patronage distribution accrual for the first nine months of 2022, (d) an additional paid-in capital of \$438,575 due to capital acquired through the merger with AgChoice Farm Credit, and (e) in 2022 the Association's Board approved an additional \$3,378 2021 cash patronage distribution to stockholders in the March 2022 distribution, slightly offset by patronage adjustments during the third quarter.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. The System's capital requirements are comparable to the Basel III framework and the standardized

approach that the federal banking regulatory agencies have adopted.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The Tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is Tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The Tier 1 leverage ratio is Tier 1 capital, divided by average assets less regulatory deductions to Tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to Tier 1 capital.

The Association's regulatory ratios are shown in the following table:

Ratio	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2022	Capital Ratios as of September 30, 2021
Risk-adjusted ratios:			
CET1 Capital	7.00%	16.83%	20.35%
Tier 1 Capital	8.50%	16.83%	20.35%
Total Capital	10.50%	17.23%	21.55%
Permanent Capital Ratio	7.00%	16.89%	20.59%
Non-risk-adjusted:			
Tier 1 Leverage Ratio	5.00%	18.16%	21.73%
UREE Leverage Ratio	1.50%	17.78%	21.62%

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.

LIBOR Transition

The Association has exposure to LIBOR arising from loans made to customers, and Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf.

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. See the Association's 2021 Annual Report for further discussion on the LIBOR transition.

The following is a summary of outstanding variable-rate financial instruments tied to LIBOR at September 30, 2022:

<i>(dollars in millions)</i>	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 30, 2023	Total
Investments	\$ -	\$ -	\$ -	\$ -
Loans	1,874	19,925	503,743	525,542
Total Assets	\$ 1,874	\$ 19,925	\$ 503,743	\$ 525,542
Note Payable to AgFirst				
Farm Credit Bank	\$ 1,478	\$ 15,717	\$ 397,365	\$ 414,560
Total Liabilities	\$ 1,478	\$ 15,717	\$ 397,365	\$ 414,560

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.

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 adopted accounting pronouncements. Additional information on new and pending Updates is provided in the following table.

The following ASUs were issued by the Financial Accounting Standards Board (FASB):

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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: <ol style="list-style-type: none"> 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, An allowance will be established for estimated credit losses on any debt securities, 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.
<i>ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures</i>	
<ul style="list-style-type: none"> This Update responds to feedback received during the Post Implementation Review process conducted by the FASB related to Topic 326. <u>Troubled Debt Restructurings (TDRs) by Creditors</u> 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. <u>Vintage Disclosures—Gross Writeoffs</u> 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. 	<ul style="list-style-type: none"> These amendments will be implemented in conjunction with the adoption of ASU 2016-13.
<i>ASU 2022-03—Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions</i>	
<ul style="list-style-type: none"> This Update clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. It also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The guidance clarifies accounting principles for measuring the fair value of an equity security subject to a contractual sale restriction and improves current GAAP by reducing diversity in practice, reducing cost and complexity, and increasing comparability of financial information across reporting entities. The amendments also require certain disclosures for equity securities subject to contractual sale restrictions. 	<ul style="list-style-type: none"> For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. For all entities except investment companies, the Update should be applied prospectively with any adjustments from adoption recognized in earnings. Early adoption is permitted.

SHAREHOLDER INVESTMENT

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank'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 by going to AgFirst's web site at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

WHISTLEBLOWER

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline at 1-833-220-9773 or a link to the website is available at www.horizonfarmcredit.ethicspoint.com.

Horizon Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2022 <i>(unaudited)</i>	December 31, 2021 <i>(audited)</i>
Assets		
Cash	\$ 144	\$ 344
Loans	5,895,503	3,040,890
Allowance for loan losses	(23,308)	(30,280)
Net loans	5,872,195	3,010,610
Loans held for sale	105	1
Other investments	416	303
Accrued interest receivable	33,134	13,092
Equity investments in other Farm Credit institutions	49,451	27,177
Premises and equipment, net	28,542	14,865
Other property owned	735	1,368
Accounts receivable	28,536	48,560
Other assets	6,084	3,963
Total assets	\$ 6,019,342	\$ 3,120,283
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 4,783,867	\$ 2,338,902
Accrued interest payable	11,695	4,396
Patronage refunds payable	60,975	80,575
Accounts payable	13,627	5,222
Advanced conditional payments	10	67
Other liabilities	28,986	19,830
Total liabilities	4,899,160	2,448,992
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	21,529	11,814
Additional paid-in-capital	267,216	—
Retained earnings		
Allocated	568,517	407,650
Unallocated	263,405	252,262
Accumulated other comprehensive income (loss)	(485)	(435)
Total members' equity	1,120,182	671,291
Total liabilities and members' equity	\$ 6,019,342	\$ 3,120,283

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

Horizon Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest Income				
Loans	\$ 80,477	\$ 32,525	\$ 146,865	\$ 95,843
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	37,681	13,006	65,243	38,332
Net interest income	42,796	19,519	81,622	57,511
Provision for (reversal of) allowance for loan losses	—	—	(7,000)	—
Net interest income after provision for (reversal of) allowance for loan losses	42,796	19,519	88,622	57,511
Noninterest Income				
Loan fees	728	347	1,177	1,562
Fees for financially related services	1,518	1,477	2,905	3,036
Lease income	35	35	105	105
Patronage refunds from other Farm Credit institutions	9,809	4,370	18,927	12,845
Gains (losses) on sales of rural home loans, net	191	334	748	1,080
Gains (losses) on sales of premises and equipment, net	52	—	206	36
Gains (losses) on other transactions	421	50	192	323
Other noninterest income (loss)	(10)	12	6	44
Total noninterest income	12,744	6,625	24,266	19,031
Noninterest Expense				
Salaries and employee benefits	12,369	8,769	30,859	26,116
Occupancy and equipment	957	505	2,045	1,549
Insurance Fund premiums	2,350	898	4,651	2,635
Purchased services	845	361	2,606	1,262
Data processing	361	170	832	430
Other operating expenses	3,603	1,628	7,813	4,890
(Gains) losses on other property owned, net	19	(72)	(188)	124
Total noninterest expense	20,504	12,259	48,618	37,006
Income before income taxes	35,036	13,885	64,270	39,536
Provision for income taxes	339	118	555	334
Net income	\$ 34,697	\$ 13,767	\$ 63,715	\$ 39,202
Other comprehensive income net of tax				
Employee benefit plans adjustments	3	4	10	12
Comprehensive income	\$ 34,700	\$ 13,771	\$ 63,725	\$ 39,214

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

Horizon Farm Credit, ACA
Consolidated Statements of Changes in
Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2020	\$ 11,400	\$ —	\$ 405,105	\$ 249,314	\$ (495)	\$ 665,324
Comprehensive income				39,202	12	39,214
Capital stock/participation certificates issued/(retired), net	331					331
Patronage distribution						
Cash				(41,250)		(41,250)
Patronage distribution adjustment		—	1,923	(4,923)		(3,000)
Balance at September 30, 2021	\$ 11,731	\$ —	\$ 407,028	\$ 242,343	\$ (483)	\$ 660,619
Balance at December 31, 2021	\$ 11,814	\$ —	\$ 407,650	\$ 252,262	\$ (435)	\$ 671,291
Comprehensive income				63,715	10	63,725
Capital stock/participation certificates issued/(retired), net	(215)					(215)
Patronage distribution						
Cash				(49,816)		(49,816)
Equity re-characterized due to merger	9,930	267,216	161,489		(60)	438,575
Patronage distribution adjustment			(622)	(2,756)		(3,378)
Balance at September 30, 2022	\$ 21,529	\$ 267,216	\$ 568,517	\$ 263,405	\$ (485)	\$ 1,120,182

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

Horizon Farm Credit, 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 Horizon Farm Credit, 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 for MidAtlantic Farm Credit, ACA (MidAtlantic). These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Effective July 1, 2022, AgChoice Farm Credit, ACA (AgChoice) merged into MidAtlantic to form Horizon Farm Credit, ACA. See Note 9, *Merger Activity*, for further information.

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 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:

	September 30, 2022	December 31, 2021
Real estate mortgage	\$ 3,479,343	\$ 2,000,305
Production and intermediate-term	1,397,651	758,322
Loans to cooperatives	110,008	20,923
Processing and marketing	402,966	81,753
Farm-related business	118,398	53,564
Communication	186,611	42,407
Power and water/waste disposal	25,687	725
Rural residential real estate	91,217	57,922
International	78,001	24,969
Lease receivables	5,621	-
Total loans	\$ 5,895,503	\$ 3,040,890

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:

	September 30, 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	\$ 60,236	\$ 8,581	\$ 17,318	\$ 8,747	\$ -	\$ -	\$ 77,554	\$ 17,328
Production and intermediate-term	116,526	54,523	62,794	9,156	-	-	179,320	63,679
Loans to cooperatives	6,941	-	105,924	-	-	-	112,865	-
Processing and marketing	111,372	89,409	109,182	5,331	80,950	-	301,504	94,740
Farm-related business	1,579	-	-	-	14,762	-	16,341	-
Communication	53,112	-	137,570	-	-	-	190,682	-
Power and water/waste disposal	306	-	26,782	-	-	-	27,088	-
International	-	-	78,797	-	-	-	78,797	-
Lease receivables	-	-	5,724	-	-	-	5,724	-
Total	\$ 350,072	\$ 152,513	\$ 544,091	\$ 23,234	\$ 95,712	\$ -	\$ 989,875	\$ 175,747

	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	\$ 44,746	\$ 3,134	\$ 286	\$ -	\$ -	\$ -	\$ 45,032	\$ 3,134
Production and intermediate-term	56,024	73,391	19,339	2,284	-	-	75,363	75,675
Loans to cooperatives	9,765	-	11,205	-	-	-	20,970	-
Processing and marketing	22,744	30,297	3,803	-	3,555	-	30,102	30,297
Farm-related business	1,579	-	65	-	-	-	1,644	-
Communication	17,243	-	25,258	-	-	-	42,501	-
Power and water/waste disposal	-	-	726	-	-	-	726	-
International	-	-	25,000	-	-	-	25,000	-
Total	\$ 152,101	\$ 106,822	\$ 85,682	\$ 2,284	\$ 3,555	\$ -	\$ 241,338	\$ 109,106

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:

	September 30, 2022	December 31, 2021		September 30, 2022	December 31, 2021
Real estate mortgage:			Communication:		
Acceptable	96.23%	94.31%	Acceptable	100.00%	100.00%
OAEM	1.87	2.62	OAEM	0.00	0.00
Substandard/doubtful/loss	1.90	3.07	Substandard/doubtful/loss	0.00	0.00
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	96.01%	94.86%	Acceptable	100.00%	100.00%
OAEM	2.03	2.65	OAEM	0.00	0.00
Substandard/doubtful/loss	1.96	2.49	Substandard/doubtful/loss	0.00	0.00
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	70.86%	Acceptable	97.10%	95.97%
OAEM	0.00	29.14	OAEM	1.72	2.01
Substandard/doubtful/loss	0.00	0.00	Substandard/doubtful/loss	1.18	2.02
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Processing and marketing:			International:		
Acceptable	99.21%	100.00%	Acceptable	100.00%	100.00%
OAEM	0.40	0.00	OAEM	0.00	0.00
Substandard/doubtful/loss	0.39	0.00	Substandard/doubtful/loss	0.00	0.00
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business:			Lease receivables:		
Acceptable	97.34%	95.35%	Acceptable	99.49%	0.00%
OAEM	2.46	4.63	OAEM	0.00	0.00
Substandard/doubtful/loss	0.20	0.02	Substandard/doubtful/loss	0.51	0.00
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>0.00%</u>
			Total loans:		
			Acceptable	96.67%	94.61%
			OAEM	1.69	2.71
			Substandard/doubtful/loss	1.64	2.68
				<u>100.00%</u>	<u>100.00%</u>

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

	September 30, 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	\$ 8,416	\$ 12,723	\$ 21,139	\$ 3,478,673	\$ 3,499,812
Production and intermediate-term	4,869	4,798	9,667	1,397,698	1,407,365
Loans to cooperatives	-	-	-	110,244	110,244
Processing and marketing	10,915	-	10,915	393,413	404,328
Farm-related business	125	21	146	118,838	118,984
Communication	-	-	-	186,741	186,741
Power and water/waste disposal	-	-	-	25,785	25,785
Rural residential real estate	559	151	710	90,866	91,576
International	-	-	-	78,162	78,162
Lease receivables	-	-	-	5,640	5,640
Total	\$ 24,884	\$ 17,693	\$ 42,577	\$ 5,886,060	\$ 5,928,637

	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	\$ 7,957	\$ 13,325	\$ 21,282	\$ 1,987,868	\$ 2,009,150
Production and intermediate-term	3,226	4,574	7,800	754,348	762,148
Loans to cooperatives	-	-	-	20,945	20,945
Processing and marketing	-	-	-	81,795	81,795
Farm-related business	169	9	178	53,537	53,715
Communication	-	-	-	42,411	42,411
Power and water/waste disposal	-	-	-	741	741
Rural residential real estate	507	87	594	57,482	58,076
International	-	-	-	25,001	25,001
Total	\$ 11,859	\$ 17,995	\$ 29,854	\$ 3,024,128	\$ 3,053,982

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

	September 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	\$ 27,203	\$ 28,474
Production and intermediate-term	8,019	8,540
Farm-related business	25	9
Rural residential real estate	397	625
Total	<u>\$ 35,644</u>	<u>\$ 37,648</u>
Accruing restructured loans:		
Real estate mortgage	\$ 18,943	\$ 21,745
Production and intermediate-term	3,916	4,957
Farm-related business	109	133
Rural residential real estate	460	472
Total	<u>\$ 23,428</u>	<u>\$ 27,307</u>
Accruing loans 90 days or more past due:		
Production and intermediate-term	\$ 72	\$ 220
Total	<u>\$ 72</u>	<u>\$ 220</u>
Total nonperforming loans	\$ 59,144	\$ 65,175
Other property owned	735	1,368
Total nonperforming assets	<u>\$ 59,879</u>	<u>\$ 66,543</u>
Nonaccrual loans as a percentage of total loans	0.60%	1.24%
Nonperforming assets as a percentage of total loans and other property owned	1.02%	2.19%
Nonperforming assets as a percentage of capital	<u>5.35%</u>	<u>9.91%</u>

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.

	September 30, 2022	December 31, 2021
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 14,857	\$ 14,953
Past due	20,787	22,695
Total	<u>\$ 35,644</u>	<u>\$ 37,648</u>
Impaired accrual loans:		
Restructured	\$ 23,428	\$ 27,307
90 days or more past due	72	220
Total	<u>\$ 23,500</u>	<u>\$ 27,527</u>
Total impaired loans	<u>\$ 59,144</u>	<u>\$ 65,175</u>
Additional commitments to lend	<u>\$ 80</u>	<u>\$ 23</u>

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

	September 30, 2022			Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:							
With a related allowance for credit losses:							
Real estate mortgage	\$ 8,533	\$ 10,470	\$ 2,309	\$ 9,413	\$ 114	\$ 5,612	\$ 114
Production and intermediate-term	4,752	5,886	2,005	5,241	63	3,124	64
Farm-related business	-	-	-	-	-	-	-
Rural residential real estate	306	463	61	338	4	201	4
Total	<u>\$ 13,591</u>	<u>\$ 16,819</u>	<u>\$ 4,375</u>	<u>\$ 14,992</u>	<u>\$ 181</u>	<u>\$ 8,937</u>	<u>\$ 182</u>
With no related allowance for credit losses:							
Real estate mortgage	\$ 37,613	\$ 44,129	\$ -	\$ 41,490	\$ 500	\$ 24,734	\$ 503
Production and intermediate-term	7,255	10,556	-	8,003	97	4,771	97
Farm-related business	134	304	-	149	2	89	2
Rural residential real estate	551	632	-	607	7	363	7
Total	<u>\$ 45,553</u>	<u>\$ 55,621</u>	<u>\$ -</u>	<u>\$ 50,249</u>	<u>\$ 606</u>	<u>\$ 29,957</u>	<u>\$ 609</u>
Total impaired loans:							
Real estate mortgage	\$ 46,146	\$ 54,599	\$ 2,309	\$ 50,903	\$ 614	\$ 30,346	\$ 617
Production and intermediate-term	12,007	16,442	2,005	13,244	160	7,895	161
Farm-related business	134	304	-	149	2	89	2
Rural residential real estate	857	1,095	61	945	11	564	11
Total	<u>\$ 59,144</u>	<u>\$ 72,440</u>	<u>\$ 4,375</u>	<u>\$ 65,241</u>	<u>\$ 787</u>	<u>\$ 38,894</u>	<u>\$ 791</u>

Impaired loans:	December 31, 2021			Year Ended December 31, 2021	
	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	\$ 9,212	\$ 10,920	\$ 3,064	\$ 10,306	\$ 441
Production and intermediate-term	5,241	6,007	2,783	5,862	251
Farm-related business	9	25	3	9	1
Rural residential real estate	445	565	90	498	21
Total	\$ 14,907	\$ 17,517	\$ 5,940	\$ 16,675	\$ 714
With no related allowance for credit losses:					
Real estate mortgage	\$ 41,007	\$ 45,995	\$ –	\$ 45,871	\$ 1,964
Production and intermediate-term	8,476	10,607	–	9,483	406
Farm-related business	133	276	–	150	7
Rural residential real estate	652	752	–	730	31
Total	\$ 50,268	\$ 57,630	\$ –	\$ 56,234	\$ 2,408
Total impaired loans:					
Real estate mortgage	\$ 50,219	\$ 56,915	\$ 3,064	\$ 56,177	\$ 2,405
Production and intermediate-term	13,717	16,614	2,783	15,345	657
Farm-related business	142	301	3	159	8
Rural residential real estate	1,097	1,317	90	1,228	52
Total	\$ 65,175	\$ 75,147	\$ 5,940	\$ 72,909	\$ 3,122

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*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:									
Balance at June 30, 2022	\$ 10,524	\$ 11,328	\$ 1,077	\$ 71	\$ –	\$ 231	\$ 21	\$ 42	\$ 23,294
Charge-offs	–	–	–	–	–	–	–	–	–
Recoveries	–	14	–	–	–	–	–	–	14
Provision for loan losses	(596)	105	466	25	–	(10)	23	(13)	–
Balance at September 30, 2022	\$ 9,928	\$ 11,447	\$ 1,543	\$ 96	\$ –	\$ 221	\$ 44	\$ 29	\$ 23,308
Balance at December 31, 2021	\$ 12,282	\$ 15,941	\$ 1,691	\$ 66	\$ –	\$ 278	\$ 22	\$ –	\$ 30,280
Charge-offs	–	–	–	–	–	(4)	–	–	(4)
Recoveries	14	18	–	–	–	–	–	–	32
Provision for loan losses	(2,368)	(4,512)	(148)	30	–	(53)	22	29	(7,000)
Balance at September 30, 2022	\$ 9,928	\$ 11,447	\$ 1,543	\$ 96	\$ –	\$ 221	\$ 44	\$ 29	\$ 23,308
Balance at June 30, 2021	\$ 15,405	\$ 18,261	\$ 2,227	\$ 113	\$ 2	\$ 272	\$ 26	\$ –	\$ 36,306
Charge-offs	–	–	–	–	–	–	–	–	–
Recoveries	1	72	–	–	–	–	–	–	73
Provision for loan losses	23	259	(263)	(25)	(1)	11	(4)	–	–
Balance at September 30, 2021	\$ 15,429	\$ 18,592	\$ 1,964	\$ 88	\$ 1	\$ 283	\$ 22	\$ –	\$ 36,379
Balance at December 31, 2020	\$ 15,617	\$ 18,333	\$ 1,719	\$ 115	\$ 2	\$ 323	\$ 22	\$ –	\$ 36,131
Charge-offs	–	–	–	–	–	–	–	–	–
Recoveries	155	93	–	–	–	–	–	–	248
Provision for loan losses	(343)	166	245	(27)	(1)	(40)	–	–	–
Balance at September 30, 2021	\$ 15,429	\$ 18,592	\$ 1,964	\$ 88	\$ 1	\$ 283	\$ 22	\$ –	\$ 36,379
Allowance on loans evaluated for impairment:									
Individually	\$ 2,309	\$ 2,005	\$ –	\$ –	\$ –	\$ 61	\$ –	\$ –	\$ 4,375
Collectively	7,619	9,442	1,543	96	–	160	44	29	18,933
Balance at September 30, 2022	\$ 9,928	\$ 11,447	\$ 1,543	\$ 96	\$ –	\$ 221	\$ 44	\$ 29	\$ 23,308
Individually	\$ 3,064	\$ 2,783	\$ 3	\$ –	\$ –	\$ 90	\$ –	\$ –	\$ 5,940
Collectively	9,218	13,158	1,688	66	–	188	22	–	24,340
Balance at December 31, 2021	\$ 12,282	\$ 15,941	\$ 1,691	\$ 66	\$ –	\$ 278	\$ 22	\$ –	\$ 30,280
Recorded investment in loans evaluated for impairment:									
Individually	\$ 24,806	\$ 7,298	\$ 6	\$ –	\$ –	\$ 296	\$ –	\$ –	\$ 32,406
Collectively	3,475,006	1,400,067	633,550	186,741	25,785	91,280	78,162	5,640	5,896,231
Balance at September 30, 2022	\$ 3,499,812	\$ 1,407,365	\$ 633,556	\$ 186,741	\$ 25,785	\$ 91,576	\$ 78,162	\$ 5,640	\$ 5,928,637
Individually	\$ 28,474	\$ 8,540	\$ 9	\$ –	\$ –	\$ 625	\$ –	\$ –	\$ 37,648
Collectively	1,980,676	753,608	156,446	42,411	741	57,451	25,001	–	3,016,334
Balance at December 31, 2021	\$ 2,009,150	\$ 762,148	\$ 156,455	\$ 42,411	\$ 741	\$ 58,076	\$ 25,001	\$ –	\$ 3,053,982

*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.

Three Months Ended September 30, 2022					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ —	\$ 1,623	\$ —	\$ 1,623	
Total	\$ —	\$ 1,623	\$ —	\$ 1,623	
Post-modification:					
Production and intermediate-term	\$ 37	\$ 1,631	\$ —	\$ 1,668	\$ —
Total	\$ 37	\$ 1,631	\$ —	\$ 1,668	\$ —

Nine Months Ended September 30, 2022					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 756	\$ 3,736	\$ —	\$ 4,492	
Production and intermediate-term	—	2,317	—	2,317	
Total	\$ 756	\$ 6,053	\$ —	\$ 6,809	
Post-modification:					
Real estate mortgage	\$ 756	\$ 3,766	\$ —	\$ 4,522	\$ —
Production and intermediate-term	37	2,328	—	2,365	—
Total	\$ 793	\$ 6,094	\$ —	\$ 6,887	\$ —

Three Months Ended September 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ —	\$ 397	\$ —	\$ 397	
Production and intermediate-term	—	2,934	—	2,934	
Rural residential real estate	—	81	—	81	
Total	\$ —	\$ 3,412	\$ —	\$ 3,412	
Post-modification:					
Real estate mortgage	\$ —	\$ 397	\$ —	\$ 397	\$ —
Production and intermediate-term	—	2,926	—	2,926	—
Rural residential real estate	—	96	—	96	—
Total	\$ —	\$ 3,419	\$ —	\$ 3,419	\$ —

Nine Months Ended September 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 270	\$ 8,271	\$ —	\$ 8,541	
Production and intermediate-term	360	7,453	—	7,813	
Processing and marketing	—	—	—	—	
Rural residential real estate	—	81	—	81	
Total	\$ 630	\$ 15,805	\$ —	\$ 16,435	
Post-modification:					
Real estate mortgage	\$ 266	\$ 8,306	\$ —	\$ 8,572	\$ —
Production and intermediate-term	372	7,535	—	7,907	—
Processing and marketing	1	—	—	1	—
Rural residential real estate	—	96	—	96	—
Total	\$ 639	\$ 15,937	\$ —	\$ 16,576	\$ —

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.

The following table presents the outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Defaulted troubled debt restructurings:				
Real estate mortgage	\$ —	\$ 957	\$ —	\$ 1,930
Production and intermediate-term	—	14	—	18
Total	\$ —	\$ 971	\$ —	\$ 1,948

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
Real estate mortgage	\$ 32,835	\$ 36,495	\$ 13,892	\$ 14,750
Production and intermediate-term	8,145	9,493	4,229	4,536
Farm-related business	111	142	2	9
Rural residential real estate	603	635	143	163
Total loans	\$ 41,694	\$ 46,765	\$ 18,266	\$ 19,458
Additional commitments to lend	\$ 80	\$ 23		

Note 3 — Investments

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 17.82 percent of the issued stock of the Bank as of September 30, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled \$41.7

billion and shareholders' equity totaled \$1.6 billion. The Bank's earnings were \$313 million for the first nine months of 2022. In addition, the Association held investments of \$3,703 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Employee Benefit Plans:				
Balance at beginning of period	\$ (428)	\$ (487)	\$ (435)	\$ (495)
Equity re-characterized due to merger	(60)	—	(60)	—
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	3	4	10	12
Net current period other comprehensive income	3	4	10	12
Balance at end of period	\$ (485)	\$ (483)	\$ (485)	\$ (483)

Reclassifications Out of Accumulated Other Comprehensive Income (b)

	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2022	2021	2022	2021	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (3)	\$ (4)	\$ (10)	\$ (12)	See Note 7.
Net amounts reclassified	\$ (3)	\$ (4)	\$ (10)	\$ (12)	

(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 or 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.

	September 30, 2022				Total Fair Value
	Total Carrying Amount	Level 1	Level 2	Level 3	
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 3,151	\$ 3,151	\$ —	\$ —	\$ 3,151
Recurring Assets	\$ 3,151	\$ 3,151	\$ —	\$ —	\$ 3,151
Liabilities:					
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 9,216	\$ —	\$ —	\$ 9,216	\$ 9,216
Other property owned	735	—	—	817	817
Nonrecurring Assets	\$ 9,951	\$ —	\$ —	\$ 10,033	\$ 10,033
Other Financial Instruments					
Assets:					
Cash	\$ 144	\$ 144	\$ —	\$ —	\$ 144
Loans	5,863,084	—	—	5,563,688	5,563,688
Other Financial Assets	\$ 5,863,228	\$ 144	\$ —	\$ 5,563,688	\$ 5,563,832
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 4,783,867	\$ —	\$ —	\$ 4,532,242	\$ 4,532,242
Other Financial Liabilities	\$ 4,783,867	\$ —	\$ —	\$ 4,532,242	\$ 4,532,242

December 31, 2021

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 2,985	\$ 2,985	\$ –	\$ –	\$ 2,985
Recurring Assets	\$ 2,985	\$ 2,985	\$ –	\$ –	\$ 2,985
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 8,967	\$ –	\$ –	\$ 8,967	\$ 8,967
Other property owned	1,368	–	–	1,520	1,520
Nonrecurring Assets	\$ 10,335	\$ –	\$ –	\$ 10,487	\$ 10,487
Other Financial Instruments					
Assets:					
Cash	\$ 344	\$ 344	\$ –	\$ –	\$ 344
Loans	3,001,644	–	–	2,982,289	2,982,289
Other Financial Assets	\$ 3,001,988	\$ 344	\$ –	\$ 2,982,289	\$ 2,982,633
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 2,338,902	\$ –	\$ –	\$ 2,325,417	\$ 2,325,417
Other Financial Liabilities	\$ 2,338,902	\$ –	\$ –	\$ 2,325,417	\$ 2,325,417

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 below. 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.

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
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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Pension	\$ 1,027	\$ 1,454	\$ 2,586	\$ 4,360
401(k)	636	416	1,473	1,236
Other postretirement benefits	287	166	622	495
Total	<u>\$ 1,950</u>	<u>\$ 2,036</u>	<u>\$ 4,681</u>	<u>\$ 6,091</u>

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 MidAtlantic 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 — Merger Activity

Effective July 1, 2022, AgChoice merged into MidAtlantic to form Horizon Farm Credit, ACA. The effects of the merger are included in the Association's results of operations, statement of condition, average balances, and related metrics beginning July 1, 2022.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of September 30, 2022. The Consolidated Statements of Income and Members' Equity reflect the results of MidAtlantic prior to July 1, 2022, and the merged Association after July 1, 2022. Information in the Notes to the Consolidated Financial Statements for 2022

reflects balances of the merged Association as of September 30, or in the case of transactional activity, reflects MidAtlantic prior to July 1 and the merged Association for the period July 1 to September 30.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, associations can issue stock only at its par value of \$5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the common stock shares of AgChoice that were converted in the merger and the common stock shares of Horizon to which they were converted had identical rights and attributes. For this reason, the conversion of AgChoice stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each AgChoice share was converted into one share of Horizon's stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the Horizon stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, Horizon undertook a process to identify and estimate the acquisition date fair value of AgChoice's equity interests instead of the acquisition date fair value of Horizon's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from AgChoice, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. In addition, no material amounts of intangible assets were acquired. As a result, management recorded no goodwill. A net increase of \$438.6 million was recorded in stockholders' equity related to the merger.

The following condensed statement of net assets acquired reflects the fair value assigned to AgChoice's net assets as of the date of acquisition. There were no subsequent changes to these fair values.

	<u>AgChoice</u>
Assets:	
Net loans	\$ 2,624,647
Accrued interest receivable	10,958
Other assets	47,447
Total assets	<u>\$ 2,683,052</u>
Liabilities:	
Notes payable	\$ 2,212,784
Accrued interest payable	4,825
Other liabilities	26,868
Total liabilities	<u>\$ 2,244,477</u>
Fair value of net assets acquired	<u>\$ 438,575</u>

Fair value adjustments to AgChoice's assets and liabilities included a \$111.2 million decrease to loans and a \$56.2 million decrease to notes payable to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis.

Note 10 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through November 8, 2022, which was the date the financial statements were issued.