Third Quarter Financial Report September 30, 2022

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Frontier Farm Credit, ACA

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

The following commentary reviews the consolidated financial position and consolidated results of operations of Frontier Farm Credit, ACA, and its subsidiaries (Frontier Farm Credit). The accompanying consolidated financial statements and notes also contain important information about our unaudited financial position and results of operations. You should also read our 2021 Annual Report for a description of our organization, operations and significant accounting policies.

CoBank, ACB's financial condition and results of operations materially affect shareholders' investment in Frontier Farm Credit, ACA. To request a free copy of the CoBank, ACB financial reports, contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905 or via email to $sr@frontierfarmcredit.com. You may also obtain copies by accessing CoBank, ACB's website at www.cobank.com.

Forward-Looking Information

Any forward-looking statements in this Quarterly Financial Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2021 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Commodity Review and Outlook Update

Crop prices began the third quarter relatively bearish however, crop prices rebounded during the latter half of the quarter as deterioration in the United States corn and soybean crops became evident due to the dry weather in our territory. Impacts and the uncertainty from the war in Eastern Europe continue to weigh heavy on commodity markets along with tight global supplies for many commodities.

Fed cattle prices averaged in the low-to-mid $140/cwt. range. Drought and high input costs continue to impact the cattle sector and have incentivized producers to market more cattle. Beef production reached a record 2.51 billion pounds in August, 6 percent above last year.

Refer to the Commodity Review and Outlook section of Management's Discussion & Analysis in the 2021 Annual Report for further analysis of farmland prices and industry conditions.

Loan Portfolio

Total loans were $2.6 billion at September 30, 2022, an increase of $158.7 million, or 6.6 percent from year-end. The increase was primarily due to an increase in long-term agricultural mortgage and agribusiness loans.

We recorded a $82.0 thousand provision for loan losses for the first nine months of 2022, as compared with a $5.8 million reversal of provision for loan losses during the first nine months of 2021. We recorded $400 thousand provision for unfunded lending commitments for the first nine months of 2022, as compared with a $100 thousand reversal of provision for unfunded lending commitments during the first nine months of 2021. While the portfolio experienced improvement in grain, cow/calf, and beef feedlot industries, the net charge-offs and portfolio growth caused the net provision increase. Additionally, in 2021 we incorporated a change in our estimated collateral values for agricultural real estate that drove much of the total $5.9 million reversal. Net charge-offs for the first nine months of 2022 were $582 thousand compared to net recoveries of charge offs of $379 thousand in the same period a year ago.

The following table summarizes risk assets and delinquency information (dollars in thousands):

	September 30, 2022	December 31, 2021
Risk loans:		
Nonaccrual	**$ 6,146**	$ 5,108
Restructured	**636**	58
90 days past due still accruing interest*	**33**	—
Total risk loans	**6,815**	5,166
Other property owned, net	—	—
Total risk assets	**$ 6,815**	$ 5,166
Risk loans as a percentage of total loans	**0.26%**	0.21%
Nonaccrual loans as a percentage of total loans	**0.24%**	0.21%
Current nonaccrual loans as a percentage of total nonaccrual loans	**75.9%**	91.4%
Total delinquencies as a percentage of total loans	**0.08%**	0.13%

*Accruing loans include accrued interest receivable.

Total risk loans have increased since year-end. The increase is primarily due to an increase in nonaccrual loans in the cow/calf and food processing industries, partially offset by a decrease in grain, landlords/investors and renewable fuel industries. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection. Risk loans as a percentage of total loans remained at acceptable levels.

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, portfolio quality, estimated collateral values, and current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

	September 30, 2022	December 31, 2021
Allowance as a percentage of:		
Total loans	**0.14%**	0.17%
Nonaccrual loans	**56.95%**	78.31%
Total risk loans	**51.36%**	77.43%

Our adversely classified assets decreased during the first nine months of 2022 ending the quarter at 1.13 percent of the portfolio, compared to 1.52 percent of the portfolio at December 31, 2021. Adversely classified are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses, and in our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2022.

Results of Operations

The following table presents profitability information (dollars in thousands):

	For the nine months ended September 30,	
	2022	2021
Net income (in thousands)	**$35,046**	$37,970
Return on average assets	**1.79%**	2.13%
Return on average members' equity	**8.68%**	9.69%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Members' Equity section.

Major components of the changes in net income for the nine months ended September 30, 2022 compared to the same period in 2021 are outlined in the following table (dollars in thousands):

For the nine months ended September 30,	**2022**	2021	**Increase (decrease) in net income**
Net interest income	**$ 46,876**	$ 43,972	**$ 2,904**
Provision for (reversal of) credit losses	**482**	(5,879)	**(6,361)**
Noninterest income	**14,326**	13,542	**784**
Noninterest expense	**25,674**	25,423	**(251)**
Net income	**$ 35,046**	$ 37,970	**$ (2,924)**

The annualized net interest margin was 2.53 percent for the first nine months of 2022, compared to 2.60 percent for the same period in 2021.

The effects on net interest income from changes in average volumes and rates are quantified in the following table for the nine months ended September 30, (dollars in thousands):

	2022 vs. 2021
Change in volume	**$ 4,086**
Change in rates	**(1,063)**
Change in nonaccrual income	**(119)**
Net change	**$ 2,904**

The increase in net interest income is due to higher loan volume and slightly offset by the decreased net interest margins on the portfolio.

The change in the provision for credit losses reflects our assessment of risk in the loan portfolio.

The increase in noninterest income is primarily due to an increase in patronage, insurance services, and mineral income offset by a reduction in loan fees. The increase in noninterest expense is primarily due to an increase in Farm Credit System Insurance Corporation (FCSIC) insurance expense and offset by a reduction in operating expenses under the income and expense sharing provisions of the alliance agreement. The FCSIC premium is primarily impacted by Farm Credit System loan growth and was 0.16 percent for the first six months of 2022 until the FCSIC Board announced an increase to 0.20 percent retroactive to January 1, 2022. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change the rates at any time.

We recorded $18.3 million of operating expenses under the income and expense sharing provisions of the alliance agreement in the first nine months of 2022 compared to $18.3 million for the first nine months of 2021. Refer to Note 1 in our 2021 Annual Report for additional information on the alliance.

We may receive patronage from CoBank, ACB and other Farm Credit entities. Patronage distributions from those entities are declared solely at the discretion of each institution's Board of Directors (dollars in thousands).

	For the nine months ended September 30,	
	2022	2021
Patronage from CoBank	**$ 7,060**	$ 6,299
AgDirect patronage distribution	**844**	564
Other patronage	**48**	40
Total patronage income	**$ 7,952**	$ 6,903

Patronage from CoBank primarily includes wholesale patronage.

Funding, Liquidity and Members' Equity

We borrow from CoBank, ACB under a note payable, in the form of a line of credit. The note payable is collateralized by a pledge of substantially all our assets and is governed by a General Financing Agreement (GFA), which provides for an open-ended revolving line of credit. The line of credit matures on May 31, 2023, and we expect renewal on or before that date. Substantially all borrower loans are match-funded with CoBank, ACB which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as Frontier Farm Credit is a stockholder of CoBank, ACB, we expect this borrowing relationship to continue into the foreseeable future.

The interest rate may periodically be adjusted by CoBank, ACB based on the terms and conditions of the borrowing. CoBank, ACB has established limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At September 30, 2022 and at December 31, 2021 we were within the specified limitations.

Our members' equity increased to $559.3 million at September 30, 2022 compared to $524.2 million at December 31, 2021. The increase was due to the net income recorded for the first nine months of 2022.

Farm Credit Administration regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital and permanent capital risk-based capital ratios. In addition, the Farm Credit Administration requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 8 in our 2021 Annual Report for a more complete description of these ratios. The capital adequacy ratios are directly impacted by the changes in capital as more fully discussed in this section and the changes in assets as discussed in the Loan Portfolio section.

	As of September 2022	As of December 31, 2021	Regulatory Minimums	Capital Conservation Buffer
Risk-adjusted:				
Common equity tier 1 ratio	**16.37%**	17.32%	4.50%	7.00%
Tier 1 capital ratio	**16.37%**	17.32%	6.00%	8.50%
Total capital ratio	**16.52%**	17.51%	8.00%	10.50%
Permanent capital ratio	**16.39%**	17.35%	7.00%	7.00%
Non-risk-adjusted:				
Tier 1 leverage ratio	**18.50%**	19.16%	4.00%	5.00%
Unallocated retained earnings and equivalents leverage ratio	**18.50%**	21.13%	1.50%	1.50%

Certification

This report has been prepared under the oversight of the Board's Audit Committee. The undersigned certify that they have reviewed this report and 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 their knowledge and belief.

Mark Jensen	Shane Tiffany	Craig P. Kinnison
President and CEO	Chairperson, ACA Board of Directors	Executive Vice-President and CFO
November 3, 2022	November 3, 2022	November 3, 2022

Frontier Farm Credit, ACA
Consolidated Balance Sheet
(dollars in thousands)

	September 30, 2022 (unaudited)	December 31, 2021
ASSETS		
Loans	**$ 2,568,265**	$ 2,409,596
Allowance for loan losses	**3,500**	4,000
Net loans	**2,564,765**	2,405,596
Accrued interest receivable	**34,951**	26,457
Investment in CoBank , ACB	**67,809**	70,099
Investment in AgDirect, LLP	**8,521**	7,712
Investment in RBIC	**2,694**	1,799
Premises and equipment, net	**19,597**	20,227
Prepaid benefit expense	**8,124**	6,390
Other assets	**10,018**	19,683
Total assets	**$ 2,716,479**	$ 2,557,963
LIABILITIES		
Notes payable	**$ 2,119,650**	$ 1,993,483
Accrued interest payable	**4,115**	2,157
Patronage payable	**—**	20,500
Reserve for unfunded lending commitments	**1,400**	1,000
Accrued benefits liability	**197**	209
Other liabilities	**31,835**	16,423
Total liabilities	**2,157,197**	2,033,772
Commitments and contingencies (Note 5)		
MEMBERS' EQUITY		
At-risk capital:		
Class B common stock	**9,215**	9,151
Class C common stock	**184**	200
Less: Capital stock receivable	**(9,399)**	(9,351)
Retained earnings	**559,282**	524,191
Total members' equity	**559,282**	524,191
Total liabilities and members' equity	**$ 2,716,479**	$ 2,557,963

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

Frontier Farm Credit, ACA
Consolidated Statement of Income
(dollars in thousands)
(unaudited)

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
NET INTEREST INCOME				
Interest income	**$ 27,394**	$ 20,918	**$ 72,849**	$ 62,541
Interest expense	**$ 11,348**	6,196	**$ 25,973**	18,569
Net interest income	**$ 16,046**	14,722	**$ 46,876**	43,972
Provision for (reversal of) credit losses	**$ 746**	(3,319)	**$ 482**	(5,879)
Net interest income after provision for (reversal of) credit losses	**$ 15,300**	18,041	**$ 46,394**	49,851
NONINTEREST INCOME				
Patronage income from CoBank, ACB	**$ 2,451**	2,097	**$ 7,060**	6,299
Loan fees	**$ 693**	561	**$ 2,181**	3,599
Insurance services	**$ 1,064**	832	**$ 1,546**	987
Mineral income	**$ 571**	386	**$ 1,377**	859
Rural 1st program fees	**$ 312**	484	**$ 1,077**	1,117
Distribution from AgDirect, LLP	**$ 245**	171	**$ 844**	564
Other noninterest income	**$ 2**	15	**$ 241**	117
Total noninterest income	**$ 5,338**	4,546	**$ 14,326**	13,542
NONINTEREST EXPENSE				
Salaries and employee benefits	**$ 5,109**	5,189	**$ 14,957**	14,479
Occupancy and equipment expense	**$ 926**	914	**$ 2,567**	2,504
Other operating expenses	**$ 1,280**	1,970	**$ 5,139**	6,222
Insurance fund premiums	**$ 989**	703	**$ 2,951**	2,128
Other noninterest expense	**$ (96)**	34	**$ 60**	90
Total noninterest expense	**$ 8,208**	8,810	**$ 25,674**	25,423
Income before income taxes	**$ 12,430**	13,777	**$ 35,046**	37,970
Provision for income taxes	**$ —**	—	**$ —**	—
Net income	**$ 12,430**	$ 13,777	**$ 35,046**	$ 37,970

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

Frontier Farm Credit, ACA
Consolidated Statement of Changes in Members' Equity

(dollars in thousands)
(unaudited)

	At-risk Capital		
	Capital Stock	Retained Earnings	Total Members' Equity
Balance at December 31, 2020	$ —	$ 493,215	$ 493,215
Net income		37,970	37,970
Patronage accrual adjustment		299	299
Capital stock:			
Issuance of stock in exchange for customer stock receivable	935		935
Release of customer stock receivable associated with retired stock	(557)		(557)
Less: Capital stock receivable	(378)		(378)
Balance at September 30, 2021	$ —	$ 531,484	$ 531,484
Balance at December 31, 2021	$ —	$ 524,191	$ 524,191
Net income		**35,046**	**35,046**
Patronage accrual adjustment		**45**	**45**
Capital stock:			
Issuance of stock in exchange for customer stock receivable	**602**		**602**
Release of customer stock receivable associated with retired stock	**(554)**		**(554)**
Less: Capital stock receivable	**(48)**		**(48)**
Balance at September 30, 2022	**$ —**	**$ 559,282**	**$ 559,282**

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

Notes to Consolidated Financial Statements (unaudited)

Note 1 - Organization and Significant Accounting Policies

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Financial Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the nine months ended September 30, 2022 are not necessarily indicative of the results to be expected for the year ended December 31, 2022. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our 2021 Annual Report for the year ended December 31, 2021.

The consolidated financial statements present the consolidated financial results of Frontier Farm Credit, ACA (the parent) and Frontier Farm Credit, FLCA and Frontier Farm Credit, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other Farm Credit System Institutions.

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13 "Measurement of Credit Losses on Financial Instruments." The guidance was originally effective for non-United States Securities and Exchange Commission filers for our first quarter of 2021. In November 2019, the Financial Accounting Standards Board issued ASU 2019-10 which amended the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.

The guidance replaces the current incurred loss impairment methodology with a methodology that reflects 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 investments and depending on the situation available-for-sale debt investments would also be recorded through an allowance for credit losses. We expect to adopt the standard as of January 1, 2023. The development and validation of our model, processes and internal controls related to the model and the estimation of credit losses are all substantially complete.

The adoption of the standard is currently estimated to impact the allowance for credit losses related to loans and unfunded commitments in a range between a $1 million decrease and $0.5 million increase. This estimate will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption.

In March 2022, the Financial Accounting Standards Board issued ASU 2022-02 "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." The guidance is effective at the same time that ASU 2016-13 is adopted. This guidance eliminates the accounting guidance for troubled debt restructurings by creditors in Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings, when a borrower is experiencing financial difficulty. We intend to adopt the standard concurrently with the adoption of ASU 2016-13 as amended. The adoption of this guidance is not expected to have a material impact on our financial statements, but will modify certain disclosures required under ASU 2016-13.

Refer to Note 2 in our 2021 Annual Report for additional information on other accounting standards that have been issued but are not yet effective. We are currently evaluating the impact of the guidance on our Consolidated Financial Statements.

Note 2 – Loans and Allowance for Credit Losses

Loans consisted of the following (dollars in thousands):

	September 30, 2022		December 31, 2021	
	Amount	**Percentage**	Amount	Percentage
Long-term agricultural mortgage	**$ 1,520,599**	**59.2 %**	$ 1,473,033	**61.2 %**
Production and intermediate term	**488,471**	**19.0**	549,707	**22.8**
Agribusiness	**384,148**	**15.0**	253,649	**10.5**
Rural infrastructure	**100,558**	**3.9**	67,958	**2.8**
Rural residential real estate	**52,085**	**2.0**	59,653	**2.5**
Agricultural export finance	**22,404**	**0.9**	5,596	**0.2**
Total loans	**$ 2,568,265**	**100.0 %**	$ 2,409,596	100.0 %

Credit Quality

One credit quality indicator we utilize is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- acceptable – loans are expected to be fully collectible and represent the highest quality;
- other assets especially mentioned (OAEM) (special mention) – loans are currently collectible but exhibit some potential weakness;
- substandard – loans exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- doubtful – loans 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 – loans are considered uncollectible.

We had no loans categorized as loss at September 30, 2022 or December 31, 2021.

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type (dollars in thousands):

As of September 30, 2022							
	Acceptable		**OAEM**		**Substandard/**		**Total**
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
Long-term agricultural mortgage	**$ 1,514,209**	**97.94 %**	**$ 20,849**	**1.35 %**	**$ 10,942**	**0.71 %**	**$ 1,546,000**
Production and intermediate term	**471,691**	**95.01 %**	**19,381**	**3.90 %**	**5,425**	**1.09 %**	**496,497**
Agribusiness	**366,932**	**95.20 %**	**5,709**	**1.48 %**	**12,782**	**3.32 %**	**385,423**
Rural infrastructure	**100,710**	**100.00 %**	**—**	**—**	**—**	**—**	**100,710**
Rural residential real estate	**51,515**	**98.76 %**	**303**	**0.58 %**	**346**	**0.66 %**	**52,164**
Agricultural export finance	**22,422**	**100.00 %**	**—**	**—**	**—**	**—**	**22,422**
Total	**$ 2,527,479**	**97.09 %**	**$ 46,242**	**1.78 %**	**$ 29,495**	**1.13 %**	**$ 2,603,216**

As of December 31, 2021							
	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Long-term agricultural mortgage	$ 1,442,318	96.66 %	$ 31,984	2.15 %	$ 17,804	1.19 %	$ 1,492,106
Production and intermediate term	518,619	93.26 %	26,299	4.73 %	11,193	2.01 %	556,111
Agribusiness	233,121	91.62 %	13,705	5.39 %	7,620	2.99 %	254,446
Rural infrastructure	68,028	100.00 %	—	—	—	—	68,028
Rural residential real estate	58,773	98.35 %	505	0.84 %	482	0.81 %	59,760
Agricultural export finance	5,602	100.00 %	—	—	—	—	5,602
Total	$ 2,326,461	95.50 %	$ 72,493	2.98 %	$ 37,099	1.52 %	$ 2,436,053

Delinquency

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (dollars in thousands):

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	90 Days or More Past Due and Accruing
Long-term agricultural mortgage	**$ 175**	**$ 961**	**$ 1,136**	**$ 1,544,864**	**$ 1,546,000**	**$ —**
Production and intermediate term	**132**	**551**	**683**	**495,814**	**496,497**	**33**
Agribusiness	**—**	**—**	**—**	**385,423**	**385,423**	**—**
Rural infrastructure	**—**	**—**	**—**	**100,710**	**100,710**	**—**
Rural residential real estate	**214**	**—**	**214**	**51,950**	**52,164**	**—**
Agricultural export finance	**—**	**—**	**—**	**22,422**	**22,422**	**—**
Total	**$ 521**	**$ 1,512**	**$ 2,033**	**$ 2,601,183**	**$ 2,603,216**	**$ 33**

As of 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	90 Days or More Past Due and Accruing
Long-term agricultural mortgage	$ 1,231	$ —	$ 1,231	$ 1,490,875	$ 1,492,106	$ —
Production and intermediate term	1,379	438	1,817	554,294	556,111	—
Agribusiness	239	—	239	254,207	254,446	—
Rural infrastructure	—	—	—	68,028	68,028	—
Rural residential real estate	—	—	—	59,760	59,760	—
Agricultural export finance	—	—	—	5,602	5,602	—
Total	$ 2,849	$ 438	$ 3,287	$ 2,432,766	$ 2,436,053	$ —

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Accruing loans include principal and interest. The following tables present information concerning risk loans (dollars in thousands):

	As of September 30,	
	2022	2021
Risk loans with specific allowance	**$ 1,142**	$ 624
Risk loans without specific allowance	**5,673**	5,633
Total risk loans	**$ 6,815**	$ 6,257
Total specific allowance	**$ 354**	$ 431

	For the nine months ended September 30,	
	2022	2021
Interest income recognized on nonaccrual loans	**$ (115)**	$ 4
Interest income recognized on risk accrual loans	**78**	51
Interest income recognized on risk loans	**$ (37)**	$ 55
Average risk loans	**$ 9,672**	$ 12,628

At September 30, 2022 there were approximately $176 thousand in commitments to lend additional funds to customers whose loans were at risk at September 30, 2022.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings (TDRs) are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

We recorded no TDRs in the nine months ended September 30, 2022 and September 30, 2021.

We recorded no TDRs that occurred within the previous twelve months for which there was a subsequent payment default during the period ended September 30, 2022 and June 30, 2021.

There were no additional commitments to lend to borrowers whose loans have been modified in a TDRs at September 30, 2022.

The following table presents TDRs outstanding at (dollars in thousands):

TDRs Outstanding

As of:	**September 30, 2022**	December 31, 2021
Accrual status:		
Long-term agricultural mortgage	$ 55	$ 58
Agribusiness	581	—
Total TDRs in accrual status	$ 636	$ 58
Nonaccrual status:		
Production and intermediate term	$ —	$ 28
Agribusiness	74	811
Total TDRs in nonaccrual status	$ 74	$ 839
Total TDRs:		
Long-term agricultural mortgage	$ 55	$ 58
Production and intermediate term	—	28
Agribusiness	655	811
Total TDRs	$ 710	$ 897

Allowance for Loan Losses

An analysis of changes in the allowance for credit losses follows (dollars in thousands):

	September 30,	
Allowance for loan losses	2022	2021
Balance at beginning of year	**$ 4,000**	$ 9,800
Provision for (reversal of) loan losses	**82**	(5,779)
Charge-offs	**(704)**	(237)
Recoveries	**122**	616
Balance at end of quarter	**$ 3,500**	$ 4,400

	September 30,	
Reserve for unfunded lending commitments	**2022**	2021
Balance at beginning of year	**$ 1,000**	$ 1,100
Provision for (reversal of) unfunded lending commitments	**400**	(100)
Balance at end of quarter	**$ 1,400**	$ 1,000

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, portfolio quality, estimated collateral values, and current economic and environmental conditions.

Note 3 – Investment in Rural Business Investment Company

We and other Farm Credit System institutions are among the limited partners invested in five Rural Business Investment Companies (RBIC). The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. As of September 30, 2022, our current total commitment is $13.0 million of which $10.0 million is unfunded with varying commitment end dates through June 2032. Certain commitments may have an option to extend under specific circumstances.

Note 4 – Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2021 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2022, or December 31, 2021. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (dollars in thousands):

	Fair Value Measurement Using			
As of September 30, 2022	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Impaired loans	—	—	**$ 1,395**	**$ 1,395**
Other property owned	—	—	—	**$ —**

	Fair Value Measurement Using			
As of December 31, 2021	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	—	—	$ 272	$ 272
Other property owned	—	—	—	$ —

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they fall under Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they fall under Level 3.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they fall under Level 3.

Note 5- Commitments and Contingencies

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We are among the forming limited partners in five Rural Business Investment Companies. Refer to Note 3 for additional discussion.

Note 6- Subsequent Events

We have evaluated subsequent events through November 3, 2022 which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.