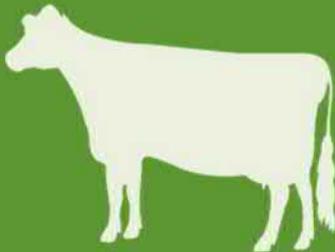


# QUARTERLY REPORT



**FARM CREDIT EAST**

**SEPTEMBER 30, 2022**

## Management's Discussion and Analysis

The following commentary is a review of the financial condition and results of operations of Farm Credit East, ACA (the Association) for the nine month period ended September 30, 2022. This commentary should be read in conjunction with the accompanying unaudited consolidated financial statements and notes included in this report, as well as the 2021 Annual Report. Dollar amounts are in thousands unless otherwise noted.

The accompanying financial statements were prepared under the oversight of the Audit Committee.

### Business Overview

Farm Credit East is a lending institution of the Farm Credit System (the System). The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. We are a mission-based lender with authority to make loans and provide related financial services to eligible borrowers for qualified agricultural purposes. As a cooperative, the Association is owned by the members it serves. The territory served extends across a diverse agricultural region covering the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont. The Association makes short and intermediate term loans for agricultural production and long-term real estate mortgage loans. Our success begins with our extensive agricultural experience and knowledge of the market.

Farm Credit East's annual and quarterly reports to stockholders are available on the Association's website, **Farmcrediteast.com** or can be obtained free of charge by calling the Association's main office at 860-741-4380. Annual reports are available 75 days after year end and quarterly reports are available 40 days after each calendar quarter end. The financial condition and results of operations of CoBank, ACB (Bank), materially affect the risk associated with stockholder investments in Farm Credit East, ACA. To obtain a free copy of the CoBank Annual Report to Stockholders, please contact us at one of our offices or by accessing **CoBank.com**.

### Merger with Yankee Farm Credit, ACA

On January 1, 2022, Yankee Farm Credit, ACA (Yankee) merged with and into Farm Credit East, ACA. The merger successfully brought together two excellent organizations and established a business entity with greater capacity of capital, people and leadership to serve northeast agriculture.

Beginning in 2022, the financial statements and related metrics include the effects of the merger with Yankee. Prior year results have not been restated to reflect the impact of the merger. Upon the closing of the merger, loans increased by \$538.1 million, assets increased by \$578.0 million, liabilities increased by \$451.9 million and members equity increased \$126.1 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations. The merger is also discussed in Note 1 "Organization and Significant Accounting Policies" to the accompanying consolidated financial statements.

### Results of Operations

Farm Credit East posted strong financial results for the nine month period ended September 30, 2022. Net income was \$207.4 million for the nine months ended September 30, 2022, an increase of \$56.6 million as compared with the same period in 2021. Our strong earnings reflect the favorable impact of the merger on net interest income due to increased loan volume, partially offset by higher operating expenses. The Association also recorded a \$39.8 million reversal to the allowance for loan losses through September 30, 2022 as discussed in the 'Provision for Loan Losses and Allowance for Credit Losses' section of this report.

The following table reflects key performance results (*\$ in millions*).

<b>For the nine months ended September 30</b>	<b>2022</b>	<b>2021</b>
Net income	\$ 207.4	\$ 150.7
Net interest income	\$ 204.8	\$ 174.8
Net interest margin	2.73%	2.79%
Return on average assets	2.65%	2.30%
Return on average members equity	14.26%	11.80%

The following table provides detail of changes in the significant components of net income (*\$ in millions*).

<b>Increase (Decrease) due to:</b>	<b>2022 versus 2021</b>	<b>2021 versus 2020</b>
Net interest income	\$ 30.0	\$ (0.8)
Reversal of loan losses	39.8	-
Noninterest income	7.4	2.4
Noninterest expenses	(20.5)	(3.3)
Provision for income taxes	(0.1)	(0.2)
Total	\$ 56.6	\$ (1.9)

### **Net Interest Income**

Net interest income was \$204.8 million for the nine months ended September 30, 2022, a \$30.0 million increase over the same period in 2021. The merger with Yankee increased our loan volume by \$538.1 million, as of January 1, 2022, which increased net interest income.

Information regarding the average daily balances and average rates earned and paid on our portfolio are presented in the following table:

<b>For the nine months ended September 30</b>	<b>2022</b>	<b>2021</b>
Net interest income	\$ 204,824	\$ 174,751
Average balances:		
Average interest earning loans	\$ 10,035,981	\$ 8,369,804
Average interest bearing liabilities	\$ 8,304,813	\$ 6,879,155
Average rates:		
Interest earning loans	4.00%	3.46%
Interest bearing liabilities	1.55%	1.10%
Interest rate spread	2.45%	2.36%
Net interest margin (interest income as a percentage of average interest earning loans)	2.73%	2.79%

The Association's average loan rate was 4.00% as of September 30, 2022, up from 3.46% as of September 30, 2021. Average cost of debt funding also increased from 1.10% in 2021 to 1.55% in 2022. Interest rates on variable rate loans and the Association's cost of debt both increased during the second and third quarters due to monetary actions taken by the Federal Reserve to raise interest rates to address rising inflation. Also impacting net interest income are lower interest rate spreads with new loan volume and improving credit quality within much of the portfolio both of which warrant lower pricing. Also, as expected, the Association's hedging strategy earnings were lower partially offset by lower fixed rate loan repricing fees.

### **Noninterest income**

Noninterest income was \$65.3 million for the nine months ended September 30, 2022, a \$7.4 million increase over the same period in 2021.

Patronage income from CoBank is a significant part of the Association's noninterest income. Patronage income is based on the average balance of the Association's note payable to CoBank. For the nine month period ended September 30, 2022, CoBank patronage income totaled \$28.0 million, compared to \$23.2 million in 2021. The merger with Yankee increased our note payable by \$435.8 million, as of the merger date, which also increases patronage income. The patronage rate accrued from CoBank on the Association's note payable is 45 basis points for both the nine months ending September 30, 2022 and 2021.

The Association also receives patronage income from CoBank and other Farm Credit entities that purchased interest in loans originated by the Association. For the nine months ended September 30, 2022 this revenue totaled \$9.7 million compared to \$6.5 million in 2021.

Noninterest income also includes fees for financial services, loan fees, compensation on participation loans and other noninterest income. These other noninterest income sources totaled \$27.6 million for the nine months ended September 30, 2022, a decrease of \$0.6 million compared to 2021. Financial services fee income is the largest component with \$22.7 million in revenue for the nine months ended September 30, 2022, an increase of \$1.4 million compared to 2021. Loan fees decreased \$2.2 million to \$1.8 million for the nine months ended September 30, 2022 as a result of fee income from specific government related lending programs that ended in 2021.

### ***Noninterest expense***

Total noninterest expenses totaled \$101.0 million for the nine months ended September 30, 2022, a \$20.5 million increase from September 30, 2021.

Salaries and employee benefits is the primary component of noninterest expense and totaled \$55.9 million, for the nine months ended September 30, 2022, an increase of \$5.8 million from \$50.1 million compared to the same period a year ago. The increase is primarily due to the addition of the Yankee staff which are offset by slightly lower retirement plan expenses.

Insurance Fund premiums were \$10.8 million for the nine months ended September 30, 2022, a \$3.3 million increase compared to the same period a year ago. Insurance Fund premium rates are set by the Farm Credit System Insurance Corporation and were twenty basis points of adjusted insured debt obligations for the first nine months of 2022, as compared with sixteen basis points from the first nine months of 2021.

Noninterest expenses also include information technology services, occupancy and equipment expense and other operating expenses and totaled \$34.3 million for the nine months ended September 30, 2022, an \$11.3 million increase compared to the same period a year ago. Information technology services increased \$4.3 million and other operating expenses increased \$6.7 million.

### ***Provision for Income Taxes***

The provision for income taxes totaled \$1.5 million for the nine months ended September 30, 2022, an increase of \$0.1 million from a year ago. The Association's effective tax rate is significantly less than the applicable federal and state tax statutory income tax rates primarily due to tax deductible patronage distributions and our tax-exempt business activities.

### ***Patronage Distributions***

The Association has a patronage program that allows it to distribute its available net earnings to its stockholders. The patronage program consists of a qualified cash distribution and a non-qualified distribution.

An anticipated patronage distribution payable to members of \$76.5 million was accrued during the first nine months of 2022. The total patronage based on 2022 earnings will be payable to members in cash early in 2023 provided the capital and earnings goals for the Association are achieved and subject to approval by the Board of Directors.

At December 31, 2021, liabilities included a \$91.0 million patronage distribution payable to members, which has since been distributed in cash.

**Loan Portfolio**

Loans outstanding were \$10.2 billion at September 30, 2022, an increase of \$1.2 billion, or 12.7% from December 31, 2021. The increase in loan volume was primarily due to the merger with Yankee Farm Credit which added \$538.1 million. The Association also continues to see significant growth in its capital market portfolio and residential country living program.

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by loan participations purchased and sold, geographic locations served, commodities financed and loan size.

The Association purchases loan volume from other System and non-System entities to diversify risk related to existing commodities financed within our geographic area served, resulting in additional income for the ACA. In addition, we sell a portion of certain large loans to other System and non-System entities to reduce risk and comply with internal lending limits we have established. Our volume of participations purchased and sold as of September 30 are reflected in the following table.

<b>September 30</b>	<b>2022</b>		<b>2021</b>	
Purchased participations	\$	2,614,134	\$	2,043,188
Sold participations	\$	1,699,540	\$	1,141,093

Loans are originated and serviced within our Local Service Area (LSA) in New York, New Jersey, Maine and throughout the remainder of New England. The geographic distribution of loans follows. As previously mentioned, we purchase loans outside our territory – which are included in other states in the following table. At September 30, 2021, volume was not disclosed separately for Vermont.

<b>September 30</b>	<b>2022</b>	<b>2021</b>
New York	41%	46%
New Jersey	9	11
Maine	7	8
Massachusetts	6	3
Connecticut	4	6
Vermont	4	-
New Hampshire, Rhode Island and other states	29	26
Total	100%	100%

The following table shows the breakout of loan volume by the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically includes more than one commodity.

<b>September 30</b>	<b>2022</b>	<b>2021</b>
Dairy	18.0%	19.3%
Processing & Marketing	12.3	11.4
Timber	10.1	10.0
Cash Field	10.0	10.7
Livestock	8.1	8.4
Fruit	7.6	8.3
Aquatic	5.2	4.3
Utilities	5.1	4.4
Farm Services	3.9	3.6
Vegetables	3.4	3.5
Potato	2.8	3.4
Nursery	2.5	2.6
Greenhouse	2.1	2.2
All Other	8.9	7.9
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

### **High Risk Assets**

Nonperforming loan volume is comprised of nonaccrual loans, accruing restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of principal and/or interest. High Risk assets consist of impaired loans and other property owned. The following table summarizes high risk assets and delinquency information:

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Nonaccrual loans	\$ 39,319	\$ 18,656
Accruing loans 90 days or more past due	-	137
Accruing restructured loans	2,728	608
<b>Total impaired loans</b>	<b>\$ 42,047</b>	<b>\$ 19,401</b>
Other property owned	947	857
<b>Total high risk assets</b>	<b>\$ 42,994</b>	<b>\$ 20,258</b>
Impaired loans to total loans	0.41%	0.21%
High risk assets to total loans	0.42%	0.22%
Nonaccrual loans to total loans	0.38%	0.21%
Delinquencies as a % of total performing loans	0.14%	0.11%

The \$22.6 million increase in impaired loans during the first nine months was due primarily for loans transferred to nonaccrual status in the vegetable industry. In general, the Association is adequately secured on much of the \$39.3 million in nonaccrual loan volume at September 30, 2022. However, the Association has established specific loan loss allowances of \$3.4 million in relation to \$8.0 million of the nonaccrual portfolio.

Other property owned is comprised of real or personal property that has been acquired through collections or deed in lieu of foreclosure. Other property owned totaled \$0.9 million at September 30, 2022. During the third quarter, the Association sold one parcel of a property. The Association is actively marketing all other property owned assets and intends to dispose of all properties in an orderly and timely fashion.

For additional loan type information, see Note 2 to these consolidated financial statements “Loans, Loan Quality and Allowance for Credit Losses”.

**Credit Quality Conditions and Measurements in the Loan Portfolio**

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS) which is used by all System institutions. The following table presents statistics based on UCS classified as a percent of total loans and related accrued interest.

<b>September 30</b>	<b>2022</b>	<b>2021</b>
Acceptable	94.82%	93.61%
Special mention	3.25	3.71
Substandard/doubtful	1.93	2.68
Total	100.00%	100.00%

Over the last twelve months, loans classified acceptable increased by 1.2% of total loans while loans classified as special mention decreased 0.5% and adversely classified loans (“substandard”, “doubtful” and “loss”) decreased by 0.8% of total loans from a year ago. While overall loan quality measures remain strong at September 30, 2022, the potential for some deterioration during 2022 exists as there is still uncertainty related to inflation and the Ukraine/Russia conflict and their impacts on the economy.

**Credit Risk Management**

Credit risk arises from the inability of an obligor to meet its repayment obligation and exists in our outstanding loans, unfunded loan commitments and letters of credit. We manage credit risk associated with our lending activities through an assessment of the credit risk profile of each individual borrower based on an analysis of the borrower’s credit history, repayment capacity, financial position and collateral. Repayment capacity focuses on the borrower’s ability to repay the loan based on cash flows from operations or other sources of income. The Association also manages credit risk by establishing limits for single borrower hold positions and industry concentrations based on underlying risks. The geographic and commodity diversity in the loan portfolio, coupled with disciplined underwriting reduces the potential for significant credit losses.

To further manage portfolio risk, the Association is a Preferred Lender under the USDA’s Farm Service Agency guarantee program and as of September 30, 2022 has guarantees totaling \$328.9 million. In addition, the Association has loan guarantees with State agencies totaling \$18.1 million. The Association also participates in the Farmer Mac Long Term Standby Commitment to Purchase Program and as of September 30, 2022, commitments totaling \$4.9 million were in this program.

**Provision for Loan Losses and Allowance for Credit Losses**

We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio. The allowance for loan losses covers the funded portion of loans outstanding, while the reserve for unfunded commitments covers losses on unfunded lending commitments. Farm Credit East recorded a \$39.8 million reversal to the allowance for loan losses for the nine months ended September 30, 2022. No provision or reversal was recorded for the nine months ended September 30, 2021. The decrease in allowance for loan losses is primarily the result of changes in methodology which the Association uses to determine the risk of loss within the loan portfolio - largely driven by low historical loss experience, and the continued and sustained improvement in loan credit quality over the last year.

Information regarding comparative allowance coverage, as a percentage of key loan categories, are presented in the following table:

September 30	2022	2021
Components:		
Allowance for loan losses	\$ 45,900	\$ 78,423
Reserve for unfunded commitments	10,654	18,030
Allowance for credit losses (ACL)	\$ 56,554	\$ 96,453
ACL as a percentage of:		
Total loans	0.55%	1.13%
Nonaccrual loans	143.83%	296.28%
Impaired loans	134.50%	287.88%

For further discussion regarding the allowance for loan losses, refer to Note 2 to the consolidated financial statements “Loans, Loan Quality and Allowance for Credit Losses”.

### Liquidity and Funding Sources

The Association’s primary source of funding is CoBank. Funds are obtained through borrowing on a revolving line of credit governed by a General Financing Agreement. At September 30, 2022 the Association’s note payable to CoBank totaled \$8.4 billion.

The line of credit available to the Association is formula-driven based on Association loan volume and credit quality. Because of the funding relationship with CoBank, the Association does not maintain large balances in cash or other liquid investments. Substantially all of the Association’s assets are pledged as security to CoBank. The Association is in full compliance with its financing agreement with CoBank and has capacity under the agreement to borrow funds needed to meet anticipated loan demand.

### Members’ Equity

In conjunction with its annual financial planning process, the Association’s Board of Directors reviews and approves a Capitalization Plan. The objective of the plan is to build and maintain adequate capital for continued financial viability and to provide for growth necessary to meet customer needs.

Members’ equity, which is available as loanable funds, was \$2.0 billion at September 30, 2022 and consisted of capital stock and participation certificates of \$18.3 million, additional paid in capital of \$354.2 million, unallocated retained earnings of \$1.7 billion, and accumulated other comprehensive loss of (\$97.7) million. The merger with Yankee added \$126.1 million to members equity.

### Capital Plan and Regulatory Requirements

The Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved as part of the Association’s annual Business Plan.

As shown in the following table, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, our regulator the Farm Credit Administration (FCA) can impose restrictions, including limiting our ability to pay patronage distributions and retire equities.

September 30	2022	2021	FCA Minimum with Buffer
Common Equity Tier 1 Capital Ratio (CET1)	16.40%	16.78%	7.00%
Tier 1 Capital Ratio	16.40%	16.78%	8.50%
Total Regulatory Capital Ratio (TRC)	16.94%	17.84%	10.50%
Permanent Capital Ratio	16.22%	16.93%	7.00%
Tier 1 Leverage Ratio	17.72%	18.01%	5.00%
UREE Leverage Ratio	17.54%	19.97%	1.50%

For additional information on Capital Regulations, see Note 3 to these consolidated financial statements “Members’ Equity”.

### **Critical Accounting Estimates**

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. The Association's significant accounting policies are critical to the understanding of the results of operations and financial position because some accounting policies require management to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. Management considers these policies critical because it has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 1 to the consolidated financial statements "Organization and Significant Accounting Policies".

### **Business Outlook**

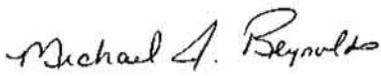
The supply-chain problems experienced earlier in the year are starting to ease, but inflation and tight labor markets persist as serious business challenges. Prices for many agricultural commodities have declined from recent highs, but remain strong, boosting top-line farm revenues. Rising labor and input costs have squeezed margins for some producers, but in general, most ag sectors should see positive net earnings this year. U.S. GDP growth has slowed substantially, tilting negative for the first half of the year, and the Fed has aggressively raised interest rates, boosting rates by 3.0% so far this year, raising concerns for agricultural sectors driven by consumer spending. Lumber markets have also fallen, and rising interest rates may slow housing and construction spending. The overall profit outlook for most sectors served by Farm Credit East remains strong for 2022, but headwinds and uncertainty are increasing for 2023.

### **Forward-Looking Statements**

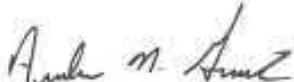
Certain information included in this report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "believes," "could," "estimates," "anticipates," "may," "should," "will," or other variations of these terms or similar expressions are intended to identify forward-looking statements. These statements are based on assumptions and analyses made in light of experience, historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to fluctuations in the economy, the relative strengths and weaknesses in the agricultural credit sectors and in the real estate market, and the actions taken by the Federal Reserve in implementing monetary policy.

**Certification**

The undersigned certify that they have reviewed this report and it has been prepared in accordance with all applicable statutory and regulatory requirements and that the information contained herein is true, accurate and complete to the best of their knowledge and belief. There were no material changes in the internal control over financial reporting during the nine months ended September 30, 2022.



Michael J. Reynolds  
Chief Executive Officer



Andrew N. Grant  
Chief Financial Officer



Laurie K. Griffen  
Chair of the Board

Dated: November 4, 2022

**CONSOLIDATED BALANCE SHEETS**  
(unaudited and dollars in thousands)

	September 30, 2022	December 31, 2021
<b>ASSETS</b>		
Loans	\$ 10,230,360	\$ 9,074,791
Less: Allowance for loan losses	45,900	80,335
Net loans	10,184,460	8,994,456
Cash	28,131	20,345
Accrued interest receivable	38,262	24,468
Investment in CoBank, ACB	285,043	258,584
Premises and equipment, net	27,136	26,032
Other property owned	947	857
Other assets	74,581	97,873
<b>Total Assets</b>	<b>\$ 10,638,560</b>	<b>\$ 9,422,615</b>
<b>LIABILITIES</b>		
Notes payable to CoBank, ACB	\$ 8,420,269	\$ 7,452,909
Patronage distributions payable	76,500	91,000
Accrued interest payable	21,287	6,410
Reserve for unfunded commitments	10,654	16,064
Other liabilities	138,863	89,593
<b>Total Liabilities</b>	<b>8,667,573</b>	<b>\$ 7,655,976</b>
<b>MEMBERS' EQUITY</b>		
Capital stock and participation certificates	18,256	\$ 16,688
Additional paid-in capital	354,163	229,198
Unallocated retained earnings	1,696,283	1,565,415
Accumulated other comprehensive loss	(97,715)	(44,662)
<b>Total Members' Equity</b>	<b>1,970,987</b>	<b>\$ 1,766,639</b>
<b>Total Liabilities and Members' Equity</b>	<b>\$ 10,638,560</b>	<b>\$ 9,422,615</b>

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*(unaudited and dollars in thousands)*

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
<b>INTEREST INCOME</b>				
Loans	\$ 123,246	\$ 75,010	306,145	\$ 221,536
Other	54	105	239	324
Total interest income	123,300	75,115	306,384	221,860
<b>INTEREST EXPENSE</b>				
Notes payable to CoBank, ACB	53,563	15,296	101,538	47,090
Other	10	8	22	19
Total interest expense	53,573	15,304	101,560	47,109
Net interest income	69,727	59,811	204,824	174,751
(Reversal) of loan losses	(3,844)	-	(39,779)	-
Net interest income after (reversal) of loan losses	73,571	59,811	244,603	174,751
<b>NONINTEREST INCOME</b>				
Patronage income	11,462	8,954	37,694	29,740
Financially related services income	6,435	6,679	22,713	21,280
Compensation on participation loans, net	929	983	3,018	2,766
Loan fees	685	957	1,826	4,038
Other income	5	4	54	106
Total noninterest income	19,516	17,577	65,305	57,930
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	18,368	16,622	55,904	50,056
Occupancy and equipment	1,325	1,252	3,624	3,280
Insurance Fund premiums	3,133	2,514	10,826	7,538
Information technology services	7,189	4,262	16,756	12,443
Other operating expenses	5,557	3,088	13,924	7,247
Total noninterest expenses	35,572	27,738	101,034	80,564
Income before income taxes	57,515	49,650	208,874	152,117
Provision for income taxes	501	461	1,506	1,386
<b>Net Income</b>	57,014	49,189	207,368	150,731
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Net change in cash flow hedges	(17,411)	(3,342)	(53,055)	(13,426)
Net change in retirement plan liabilities	-	-	2	-
Other Comprehensive (Loss)	(17,411)	(3,342)	(53,053)	(13,426)
<b>Comprehensive Income</b>	\$ 39,603	\$ 45,847	\$ 154,315	\$ 137,305

The accompanying notes are an integral part of these statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
*(unaudited and dollars in thousands)*

	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Members' Equity
<b>Balance at December 31, 2020</b>	\$ 16,041	\$ 229,198	\$ 1,451,018	\$ (34,152)	\$ 1,662,105
Comprehensive income (loss)	-	-	150,731	(13,426)	137,305
Capital stock and participation certificates issued	1,402	-	-	-	1,402
Capital stock and participation certificates retired	(915)	-	-	-	(915)
Patronage Distribution	-	-	(70,500)	-	(70,500)
<b>Balance at September 30, 2021</b>	\$ 16,528	\$ 229,198	\$ 1,531,249	\$ (47,578)	\$ 1,729,397
<b>Balance at December 31, 2021</b>	\$ 16,688	\$ 229,198	\$ 1,565,415	\$ (44,662)	\$ 1,766,639
Comprehensive income (loss)	-	-	207,368	(53,053)	154,315
Capital stock and participation certificates issued	1,386	-	-	-	1,386
Capital stock and participation certificates retired	(965)	-	-	-	(965)
Equity re-characterized upon merger	1,147	124,965	-	-	126,112
Patronage Distribution	-	-	(76,500)	-	(76,500)
<b>Balance at September 30, 2022</b>	\$ 18,256	\$ 354,163	\$ 1,696,283	\$ (97,715)	\$ 1,970,987

The accompanying notes are an integral part of these statements.

## Notes to Consolidated Financial Statements (unaudited and dollars in thousands except as noted)

### NOTE 1 – Organization and Significant Accounting Policies

Farm Credit East, ACA (the Association or ACA) and its subsidiaries are part of the Farm Credit System. A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2021, are contained in the 2021 Annual Report to Stockholders. These unaudited third quarter 2022 financial statements should be read in conjunction with the 2021 Annual Report to Stockholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021 as contained in the 2021 Annual Report to Stockholders.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods have been made. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ended December 31, 2022. Descriptions of the significant accounting policies are included in the 2021 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform to GAAP and prevailing practices within the banking industry.

### Business Combination

Effective January 1, 2022, Yankee Farm Credit, ACA (Yankee) was merged into Farm Credit East. Farm Credit East acquired 100% of the assets and liabilities of Yankee. The acquisition method of accounting requires financial statement presentation of combined balances as of the date of the merger, but not previous periods.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of our customer owners and other customers and not for the benefit of any other equity investors; capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and their bylaws, the 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 shares of stock in one Association that were converted to shares of another Association had identical rights and attributes. For this reason, the conversion of stock pursuant to the merger occurred at a one-for-one exchange ratio.

Management believes that because the stock in each Association is fixed in value, the stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, Farm Credit East identified and estimated the acquisition date fair value of the equity interests of the acquired Association instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. The use of different estimates and judgments could yield materially different results.

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

The following condensed statement of net assets acquired reflect the fair values assigned to Yankee's net assets as of the acquisition date.

<b>Condensed Statement of Net Assets Acquired</b>	<b>January 1, 2022</b>
<b>Assets</b>	
Net loans	\$ 538,058
Cash	38
Accrued interest receivable	1,954
Other assets	37,913
<b>Total Assets</b>	<b>\$ 577,963</b>
<b>Liabilities</b>	
Notes payable	\$ 435,797
Accrued interest payable	331
Other liabilities	15,723
<b>Total Liabilities</b>	<b>\$ 451,851</b>
<b>Fair Value of Net Assets Acquired</b>	<b>\$ 126,112</b>

Fair value adjustments to Yankee's assets and liabilities included a \$3.8 million decrease to loans and a \$1.1 million increase 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.

### Recently Adopted or Issued Accounting Pronouncements

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

In March 2022, the FASB issued an update entitled "Derivatives and Hedging: Fair Value Hedging – Portfolio Layer Method." Under current guidance, the last-of-layer method enables an entity to apply fair value hedging to a stated amount of a closed portfolio of prepayable financial assets (or one or more beneficial interests secured by a portfolio of prepayable financial instruments) without having to consider prepayment risk or credit risk when measuring those assets. This guidance will allow entities to apply the portfolio layer method to portfolios of all financial assets, including both prepayable and nonprepayable financial assets. This scope expansion is consistent with the FASB's efforts to simplify hedge accounting and allows entities to apply the same method to similar hedging strategies. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted on any date on or after the issuance of this update for any entity that has adopted amendments previously issued. Although the Association does not have a current derivative hedging strategy in which the last-of-layer method is used, the Association is currently evaluating the impact of this update on future derivative hedging strategies.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost, which reflects management’s estimate of expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to held-to-maturity securities, and depending on the situation available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, including the Association, this guidance becomes effective for interim and annual reporting periods beginning after December 15, 2022. The Association continues to test and refine our current expected loss models.

The Association intends to estimate losses over the remaining life of the portfolio by using reasonable and supportable macroeconomic forecasts that revert to long run equilibrium trends. The impact of adoption of the standard is expected to be immaterial to the Association’s financial condition. This estimate will ultimately depend on the nature of the loan portfolio, final validation of models and methodologies, management’s judgments, including macroeconomic conditions and related forecasts at the adoption date of January 1, 2023.

## NOTE 2 – Loans, Loan Quality and Allowance for Credit Losses

### Loans Outstanding

Loans outstanding by loan type are shown below.

	September 30, 2022		December 31, 2021	
Real estate mortgage	\$ 4,279,916	41.8%	\$ 3,835,263	42.3%
Production and intermediate	3,114,697	30.5	2,963,459	32.7
Agribusiness	2,182,330	21.3	1,755,636	19.3
Rural infrastructure	550,443	5.4	427,324	4.7
Rural residential real estate	65,031	0.6	60,152	0.7
Other	37,943	0.4	32,957	0.3
Total	\$ 10,230,360	100.0%	\$ 9,074,791	100.0%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management’s credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed by a government agency) of the property’s appraised value. However, a decline in a property’s market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the Association may enter into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under long-term standby commitments was \$4.9 million at September 30, 2022 and \$5.5 million at December 31, 2021. Fees paid to Farmer Mac for such commitments totaled \$21 thousand for the nine months ended September 30, 2022 and \$24 thousand at September 30, 2021. These amounts are classified as noninterest expense. In addition to Farmer Mac, the Association has credit enhancements with federal and state government agencies totaling \$347.0 million at September 30, 2022 and \$310.6 million at December 31, 2021.

### Credit Quality

One credit quality indicator utilized by the Bank and Associations is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following tables show loans and related accrued interest classified, by management, under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type.

<b>September 30, 2022</b>	<b>Acceptable</b>	<b>OAEM</b>	<b>Substandard/ Doubtful</b>	<b>Total</b>
Real estate mortgage	39.1%	1.8%	0.9%	41.8%
Production and Intermediate	28.8	1.0	0.7	30.5
Agribusiness	20.6	0.4	0.3	21.3
Rural infrastructure	5.3	0.1	-	5.4
Rural residential real estate	0.6	-	-	0.6
Other	0.4	-	-	0.4
Total	94.8%	3.3%	1.9%	100.0%

<b>December 31, 2021</b>	<b>Acceptable</b>	<b>OAEM</b>	<b>Substandard/ Doubtful</b>	<b>Total</b>
Real estate mortgage	39.6%	1.8%	1.0%	42.4%
Production and Intermediate	30.6	1.0	1.0	32.6
Agribusiness	18.2	0.6	0.5	19.3
Rural infrastructure	4.7	-	-	4.7
Rural residential real estate	0.6	-	-	0.6
Other	0.3	0.1	-	0.4
Total	94.0%	3.5%	2.5%	100.0%

### Impaired Loans

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and payments received on nonaccrual impaired loans are applied in a similar manner as for nonaccrual loans, as described in Note 3 of the 2021 Annual Report to Stockholders.

Impaired loan information is shown in the following table. Loans past due 90 days or more and still accruing interest are adequately secured and in process of collection.

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Nonaccrual loans	\$ 39,319	\$ 18,656
Accruing loans 90 days or more past due	-	137
Accruing restructured loans	2,728	608
Total impaired loans	\$ 42,047	\$ 19,401

The following table presents information on impaired loans and related amounts in the allowance for loan losses.

	September 30, 2022	December 31, 2021
Impaired loans with related allowance for loan losses	\$ 8,019	\$ 5,563
Impaired loans with no related allowance for loan losses	34,028	13,838
Total impaired loans	\$ 42,047	\$ 19,401
Total specific allowance	\$ 3,444	\$ 1,121

	September 30, 2022	September 30, 2021
Average impaired loans	\$ 29,108	\$ 40,351
Interest income recognized on impaired loans	\$ 2,452	\$ 2,235

### Commitments on Impaired loans

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at September 30, 2022.

### Loan Delinquencies

The following tables present an aging of past due loans.

September 30, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing Loans 90 Days or More Past Due
Real estate mortgage	\$ 9,525	\$ 3,945	\$ 13,470	\$4,266,446	\$ 4,279,916	\$ -
Production and intermediate term	6,184	3,246	9,430	3,105,267	3,114,697	-
Agribusiness	10	1,601	1,611	2,180,719	2,182,330	-
Rural infrastructure	-	-	-	550,443	550,443	-
Rural residential real estate	-	300	300	64,731	65,031	-
Other	-	-	-	37,943	37,943	-
Total	\$ 15,719	\$ 9,092	\$ 24,811	\$10,205,549	\$ 10,230,360	\$ -

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

December 31, 2021	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Accruing Loans 90 days or More Past Due
Real estate mortgage	\$ 5,552	\$ 4,221	\$ 9,773	\$ 3,825,490	\$ 3,835,263	\$ 136
Production and intermediate term	3,657	4,095	7,752	2,955,707	2,963,459	1
Agribusiness	1,565	972	2,537	1,753,099	1,755,636	-
Rural infrastructure	-	-	-	427,324	427,324	-
Rural residential real estate	-	310	310	59,842	60,152	-
Other	-	-	-	32,957	32,957	-
Total	\$ 10,774	\$ 9,598	\$ 20,372	\$ 9,054,419	\$ 9,074,791	\$ 137

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

### Troubled Debt Restructuring

Troubled debt restructurings (TDRs) are loans in which the Association has granted a concession because the borrower is experiencing financial difficulty. Concessions may include debt forgiveness and /or interest rate reductions.

The Association had two TDRs that occurred during the nine months ended September 30, 2022, and one that occurred during the nine months ended September 30, 2021. There were five loans added as TDRs because of the merger with Yankee. During the previous 12 months, there have been no payment defaults on TDR classified loans.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
Real estate mortgage	\$ 3,024	\$ 1,404	\$ 397	\$ 849
Production and intermediate term	111	53	11	-
Total	\$ 3,135	\$ 1,457	\$ 408	\$ 849

\* represents the portion of loans modified as TDRs (first column) that are in nonaccrual status

### Allowance for Credit Losses

The following table presents the changes in the components of the allowance for credit losses. The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded commitments.

	September 30, 2022	September 30, 2021
<b>Allowance for Loan Losses</b>		
Beginning balance	\$ 80,335	\$ 73,879
Charge-offs	(272)	(279)
Recoveries	206	337
(Reversal) provision for loan losses	(39,779)	-
Transfers from (to) Reserve for Unfunded Commitments	5,410	4,486
Ending balance	\$ 45,900	\$ 78,423
<b>Reserve for Unfunded Commitments</b>		
Beginning balance	16,064	\$ 22,516
Transfers (to) from Allowance for Loan Losses	(5,410)	(4,486)
Ending balance	\$ 10,654	\$ 18,030
<b>Allowance for Credit Losses</b>	<b>\$ 56,554</b>	<b>\$ 96,453</b>

### NOTE 3 – Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below. Members' equity is described and governed by the Association's capitalization policies. Farm Credit East's capitalization policies are specified in the Bylaws and in the Capitalization Plan approved by the Board of Directors. Copies of the Association's Bylaws and Capitalization Plan are available to members at any time.

#### Capital stock and participation certificates

In accordance with the Farm Credit Act, and the Association's capitalization Bylaws and Capitalization Plan, each Association borrower, as a condition of borrowing, is required at the time the loan is made, to invest in Class B stock for agricultural loans or Class B participation certificates for country home and farm related business loans. Association Bylaws require that borrowers acquire capital stock or participation certificates, as a condition of borrowing, at least the lesser of \$1,000 or 2% of the amount of the loan, and not more than 10% of the amount of the loan. Pursuant to the Association Capitalization Plan, the Association Board has determined that Class B stock and Class B participation certificates shall be issued as follows:

For all loans (except where indicated below) Class B stock and Class B participation certificates shall be issued equal to one thousand dollars per customer as a condition of borrowing from this Association. For purposes of borrower stock, a customer is defined as the primary borrower on a loan. The intent of this policy is for each primary customer to have one thousand dollars of stock, regardless of the number of loans or balance on those loans to that customer. Stock shall be purchased at the beginning of a customer's relationship and will not be retired until all loans to that customer are paid in full and there are no funds available for advances.

Exceptions to this policy are:

- At the time of the Farm Credit East mergers in 2010, 2014 and 2022 certain customers with less than one thousand dollars of stock were "grandfathered" at the stock level at conversion. Grandfathered customer stock will be frozen at converted levels until all loans are repaid, at which time the stock will be retired, or increased to one thousand dollars at the time of a future advance or credit action.
- Certain small borrowers (customers with total commitment less than ten thousand dollars initially) will be issued at 10% of the initial commitment, consistent with By-Law limitations.
- Certain interests in loans sold to other financial institutions.
- Loans to be sold into the secondary market

All stock and participation certificates are retired at the discretion of the Association's Board of Directors after considering the capitalization plan as well as regulatory and other requirements.

### Regulatory capitalization requirements and restrictions

The Farm Credit Administration (FCA) sets minimum regulatory capital requirements for Banks and Associations.

At September 30, 2022, the Association's capital and leverage ratios exceeded regulatory minimums as shown in the following table.

Ratio	Primary Components of Numerator	Denominator	Minimum Requirement	Minimum with Buffer	Ratios as of September 30, 2022
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity) <sup>1</sup>	Risk-adjusted assets	4.5%	7.0%	16.40%
Tier 1 Capital	CET1 Capital, non-cumulative perpetual preferred stock	Risk-adjusted assets	6.0%	8.5%	16.40%
Total Regulatory Capital (TRC)	Tier 1 Capital, allowance for loan losses <sup>2</sup> , common cooperative equities <sup>3</sup> , and term preferred stock and subordinated debt <sup>4</sup>	Risk-adjusted assets	8.0%	10.5%	16.94%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	7.0%	-	16.22%
Tier 1 Leverage*	Tier 1 Capital	Total assets	4.0%	5.0%	17.72%
Unallocated Retained Earnings and URE	URE and URE Equivalents	Total assets	1.5%	-	17.54%

Equivalents  
 (UREE) Leverage

- 
- \* Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.
  - <sup>1</sup> Equities outstanding 7 or more years
  - <sup>2</sup> Capped at 1.25 % of risk-adjusted assets
  - <sup>3</sup> Outstanding 5 or more years, but less than 7 years
  - <sup>4</sup> Outstanding 5 or more years

**Patronage Distribution**

In December 2021, the Board of Directors approved a patronage resolution. This resolution will allow the Association to pay a patronage refund on 2022 income provided the capital goals and earnings for the Association are achieved. The patronage program is described more fully in the 2021 Annual Report to Stockholders.

**Accumulated Other Comprehensive (Loss)**

The Association reports accumulated other comprehensive (loss) as a component of members' equity. Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are reported as an element of members' equity and comprehensive income but excluded from net income. Other comprehensive (loss) results from the recognition of the retirement plans net unamortized gains and losses and prior service costs or credits of (\$38.9) million at September 30, 2022 and at December 31, 2021. Also included in accumulated other comprehensive income/loss is the unrealized holding gain or loss on cash flow derivatives of (\$53.1) million and (\$5.8) million at September 30, 2022 and December 31, 2021, respectively. There are no other items affecting comprehensive income or loss.

**NOTE 4 – Fair Value Measurements**

Accounting guidance defines fair value 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. The fair value measurement is not an indication of liquidity. See Note 2 and Note 14 to the 2021 Annual Report to Stockholders for additional information.

**Sensitivity to Changes in Significant Unobservable Inputs**

Quoted market prices may not be available for the instruments presented below. Accordingly, fair values are based on internal models that consider 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 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.

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

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
<b>September 30, 2022</b>				
Derivative assets	\$ -	\$ -	\$ -	\$ -
Assets held in trust	\$ 7,497	\$ -	\$ -	\$ 7,497
<b>December 31, 2021</b>				
Derivative assets	\$ -	\$ 3,203	\$ -	\$ 3,203
Assets held in trust	\$ 8,533	\$ -	\$ -	\$ 8,533
<b>Liabilities:</b>				
<b>September 30, 2022</b>				
Derivative liabilities	\$ -	\$ 58,819	\$ -	\$ 58,819
<b>December 31, 2021</b>				
Derivative liabilities	\$ -	\$ 8,967	\$ -	\$ 8,967

Assets measured at fair value on a non-recurring basis at period end for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
<b>September 30, 2022</b>				
Impaired loans	\$ -	\$ -	\$ 38,603	\$ 38,603
Other Property Owned	\$ -	\$ -	\$ 1,099	\$ 1,099
<b>December 31, 2021</b>				
Impaired loans	\$ -	\$ -	\$ 18,280	\$ 18,280
Other Property Owned	\$ -	\$ -	\$ 958	\$ 958

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Balance Sheet for each of the fair value hierarchy values are summarized below:

	September 30, 2022			December 31, 2021		
	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy
<b>Financial assets:</b>						
Loans, net	\$ 10,184,460	\$ 9,830,236	Level 3	\$ 8,994,456	\$ 9,060,223	Level 3
Cash	\$ 28,131	\$ 28,131	Level 1	\$ 20,345	\$ 20,345	Level 1
<b>Financial liabilities:</b>						
Notes payable to ACB	\$ 8,420,269	\$ 7,999,837	Level 3	\$ 7,452,909	\$ 7,454,230	Level 3

### Valuation Techniques

As more fully discussed in Note 2 to the 2021 Annual Report to Stockholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a summary of the valuation techniques used for the Association's assets and liabilities.

### Cash

The carrying value of cash is a reasonable estimate of fair value.

### Assets Held in Trust

Assets held in trust funds related to deferred compensation and supplemental retirement plans and are classified within Level 1. These assets include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

### **Loans**

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

### **Other Property Owned**

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

### **Impaired Loans**

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

### **Notes payable to CoBank, ACB**

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the note payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

### **Derivatives**

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the Association's derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps. Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively or have trade activity that is one way are classified within Level 3 of the valuation hierarchy. The Association does not have any derivatives classified within Level 3.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, primarily the LIBOR swap curve and volatility assumptions about future interest rate movements.

## **NOTE 5 – Derivative Instruments and Hedging Activities**

### **Risk Management Objectives**

The Association maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Association's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets or liabilities so that the net interest margin is not adversely affected by movements in interest rates. As a result of interest rate fluctuations, the Association's interest income and interest expense of hedged variable-rate assets will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the Association's gains and losses on the

derivative instruments that are linked to these hedged assets. The Association considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

By using derivative instruments, the Association exposes itself to credit and market risk. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Association, thus creating a repayment risk for the Association. When the fair value of the derivative contract is negative, the Association owes the counterparty and, therefore, assumes no repayment risk. The Association's derivative activities are monitored by its asset/liability committee (ALCO) as part of its oversight of asset/liability and treasury functions.

### Uses of Derivatives

The Association enters into interest rate swaps to stabilize net interest income on variable priced loan assets, to the extent they are funded with equity. Under interest rate swap arrangements, the Association agrees with other parties (CoBank) to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index. The Association's interest-earning assets, to the degree they are funded with debt, are matched with similarly priced and termed liabilities. Volatility in net interest income comes from equity funded variable priced assets. To the degree that variable priced assets are funded with equity, interest rate swaps in which the Association pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on the Association's net interest income.

The notional amounts of derivatives are shown in the following table:

	September 30, 2022	December 31, 2021
Interest Rate Contracts	\$ 1,400,000	\$ 1,355,000

### Accounting for Derivative Instruments and Hedging Activities

The Association records derivatives as assets and liabilities at their fair value in the consolidated balance sheets and records changes in the fair value of a derivative in accumulated other comprehensive income (loss). The Association only enters into cash flow hedge transactions.

### Cash Flow Hedges

The Association uses "receive fixed/pay variable" interest rate swaps to hedge the risk of overall changes in the cash flows of an asset. The asset is defined as a pool of long-term variable rate loans equal to the notional amount of the swaps, and not exceeding the Association's equity position. These swaps, which qualify for hedge accounting, have up to a three-year term, with a pay rate indexed to the three-month London Inter-Bank Offered Rate (LIBOR) or a Secured Overnight Financing Rate (SOFR).

### Summary of Derivative Instruments and Hedging Activities

A summary of the impact of derivative financial instruments in the consolidated balance sheets is shown in the following table:

	Derivative Assets <sup>(1)</sup>	Derivative Liabilities <sup>(2)</sup>
<b>September 30, 2022</b>		
Interest Rate Contracts	\$ -	\$ 58,819
<b>December 31, 2021</b>		
Interest Rate Contracts	\$ 3,203	\$ 8,967

<sup>(1)</sup> Derivative assets are included in other assets in the consolidated balance sheets

<sup>(2)</sup> Derivative liabilities are included in other liabilities in the consolidated balance sheets

A summary of the impact of derivative financial instruments in the consolidated statements of comprehensive income is shown in the following tables:

September 30	Net Amount of Gain or (Loss) Recognized in Income on Derivatives <sup>(1)</sup>	
	2022	2021
Interest Rate Contracts	\$ (5,024)	\$ 11,361

<sup>(1)</sup> Located in interest expense in the consolidated statements of income for each of the respective periods presented.

September 30	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives	
	2022	2021
Interest Rate Contracts	\$ (53,055)	\$ (13,426)

### Counterparty Credit Risk

The Association is exposed to credit loss in the event of nonperformance by other parties to the interest rate swap agreement. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Association's credit risk will equal the fair value gain in a derivative. The Association minimizes the credit (or repayment) risk by only entering into transactions with CoBank, its funding bank and are collateralized through loan agreements. Notwithstanding collateral and netting provisions, our derivative assets and liabilities are not offset in the accompanying consolidated balance sheets.

### NOTE 6 – Subsequent Events

The Association has evaluated subsequent events through November 4, 2022 which is the date the financial statements were issued or available to be issued. No additional subsequent event items met the criteria for disclosure.

### Senior Officers

Michael J. Reynolds	President and Chief Executive Officer
William S. Bathel	Executive Vice President and Chief Operating Officer
Briana S. Beebe	Executive Vice President and Chief Human Resources Officer
Thomas W. Cosgrove	Executive Vice President of Knowledge Exchange, Public Relations and Marketing
Alena C. Gfeller	Executive Vice President, General Counsel and Corporate Secretary
Andrew N. Grant	Executive Vice President and Chief Financial Officer
Roger E. Murray	Executive Vice President and Chief Marketplace Officer
Daniel Nicholson	Vice President and Chief Audit Executive
David H. Pugh	Executive Vice President and Chief Experience Officer

### Board of Directors

Laurie K. Griffen, Chair	Elected	Sod	Stillwater, NY
John P. Knopf, Vice Chair	Elected	Dairy	Canandaigua, NY
Kurt W. Alstede	Elected	Fruit & Vegetable	Chester, NJ
Michael N. Brooks	Elected	Vegetable	Elmer, NJ
Barry A. Buck	Elected	Potato	Mapleton, ME
Peter R. Call	Elected	Vegetable	Batavia, NY
Tim C. Chan	Appointed	At Large	Claremont, NH
Thomas J. Colgan	Appointed	At Large	Lyme, NH
David F. Folino	Elected	Maple Syrup	Starksboro, VT
David E. Hardie	Elected	Dairy	Lansing, NY
Philip J. Jones	Elected	Ag Retail	Shelton, CT
LouAnne F. King	Elected	Dairy	Madrid, NY
Joseph W. McWatters	Appointed	At Large	Hamburg, NY
James A. Robbins II	Elected	Forestry	Searsmont, ME
Lisa P. Sellew	Elected	Nursery	Lebanon, CT
Douglas W. Shelmidine	Elected	Dairy	Adams, NY
Kyle Thygesen	Elected	Dairy	Tunbridge, VT
Peter H. Triandafillou	Appointed	Customer	Orono, ME
Terry R. Zittel	Elected	Vegetables	Eden, NY



# FARM CREDIT EAST

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