FCS FINANCIAL
Growing Relationships. Creating Opportunities.™
A FARM CREDIT COOPERATIVE

Quarterly Report
September 30, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of FCS Financial, ACA and its subsidiaries, FCS Financial, FLCA and FCS Financial, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2021.

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly 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.

AGRICULTURAL AND ECONOMIC CONDITIONS

Crop conditions in Missouri are average to good with variations depending on moisture levels. Both topsoil and subsoil moisture supplies were 49% adequate and 38% short. Per the United States Department of Agriculture (USDA) Crop Progress and Condition report for the week ended September 18, 2022, 70% of the corn is mature compared with the five-year average of 63% with 50% rated good or excellent. The projected corn yield is 149 bushels per acre or a 7% decline from 2021 while soybean conditions are rated 48% good or excellent. Soybean yield forecast of 47 bushels per acre represents a 5% decline from 2021.

Commodity prices remain strong with USDA forecast of $5.95 for corn and $13.30 for soybeans for the marketing year concluded August 31, 2022. Crop producers noted concerns with high input costs and the outlook for lower corn and soybean prices for 2023. Additionally, Brazil projects increases to soybean and corn acreage for the 2022/2023 production cycle increasing the competition for the world export market.

In the protein sector, feeder and stocker cattle prices have remained strong during 2022. Prices are significantly above historical levels due to concerns over elevated beef cow and heifer slaughter resulting from continued drought conditions in the Western United States (U.S.). U.S. beef exports on a value basis are 29% higher driven by demand from Asian countries. Concerns remain over the high cost of feed and its impact on profitability for beef, pork, independent poultry, and egg producers.

Farmland values in the Association's territory remain strong during the third quarter of 2022, albeit with less auction and sales activity consistent with historical sales cycles. There continues to be robust demand for higher quality cropland and pasture tracts with stable to improving prices. Strong net farm income in 2021 provided farm operations with improved working capital and equity positions to expand their farming operations. Increasing interest rates have not impacted prices and operations with sound financial positions continue to expand.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $5.7 billion as of September 30, 2022, an increase of $272.0 million from December 31, 2021.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2021. Adversely classified loans decreased to 1.6% of the portfolio as of September 30, 2022, from 2.0% of the portfolio as of December 31, 2021. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. As of September 30, 2022, $290.5 million of our loans were substantially guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30, 2022**	December 31, 2021
Loans:		
Nonaccrual	**$17,029**	$11,400
Accruing restructured	**2,579**	1,040
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**19,608**	12,440
Other property owned	**--**	--
Total risk assets	**$19,608**	$12,440
Total risk loans as a percentage of total loans	**0.3%**	0.2%
Nonaccrual loans as a percentage of total loans	**0.3%**	0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans	**86.9%**	93.8%
Total delinquencies as a percentage of total loans	**0.1%**	0.1%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2021, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to a capital markets relationship that moved to nonaccrual during the third quarter of 2022. Nonaccrual loans remained at an acceptable level as of September 30, 2022, and December 31, 2021.

Allowance for Loan Losses

The allowance for loan losses is an estimate of inherent 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, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**September 30, 2022**	December 31, 2021
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**98.8%**	147.8%
Total risk loans	**85.8%**	135.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio as of September 30, 2022.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30	**2022**	2021
Net income	**$81,300**	$76,924
Return on average assets	**1.9%**	2.0%
Return on average members' equity	**10.2%**	10.2%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the nine months ended September 30	**2022**	2021	**Increase (decrease) in net income**
Net interest income	**$101,953**	$90,517	**$11,436**
Non-interest income	**28,542**	30,610	**(2,068)**
Non-interest expense	**49,116**	43,807	**(5,309)**
Provision for income taxes	**79**	396	**317**
Net income	**$81,300**	$76,924	**$4,376**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the nine months ended September 30	**2022 vs 2021**
Changes in volume	**$10,022**
Changes in interest rates	**2,005**
Changes in nonaccrual income and other	**(591)**
Net change	**$11,436**

Non-Interest Expense

The Farm Credit System insurance expense increased in 2022 primarily due to a higher premium rate charged by the Farm Credit System Insurance Corporation (FCSIC) on accrual loans. The premium rate, which is primarily impacted by System growth, was 20 basis points for the nine months ended September 30, 2022, compared to 16 basis points for the same period in 2021. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on December 31, 2023. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium as of September 30, 2022, or December 31, 2021.

Total members' equity increased $52.0 million from December 31, 2021, primarily due to net income for the period which was partially offset by patronage distribution accruals.

The Farm Credit Administration (FCA) 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 FCA 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 6 in our 2021 Annual Report for a more complete description of these ratios. Effective January 1, 2022, the FCA regulations slightly modified the calculation of the unallocated retained earnings and equivalents leverage ratio to include certain additional deductions. The modification did not have a material impact on this ratio.

Regulatory Capital Requirements and Ratios

As of:	**September 30, 2022**	December 31, 2021	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**15.6%**	16.4%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**15.6%**	16.4%	6.0%	2.5%	8.5%
Total capital ratio	**15.9%**	16.7%	8.0%	2.5%	10.5%
Permanent capital ratio	**15.6%**	16.4%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**16.6%**	17.3%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**16.4%**	18.3%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 10 in our 2021 Annual Report.

CERTIFICATION

The undersigned have reviewed the September 30, 2022, Quarterly Report of FCS Financial, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Kenneth Bergmann
Chairperson of the Board
FCS Financial, ACA

David D. Janish
Chief Executive Officer
FCS Financial, ACA

Starla Harper
Chief Financial Officer
FCS Financial, ACA

November 8, 2022

CONSOLIDATED STATEMENTS OF CONDITION

FCS Financial, ACA
(in thousands)
(Unaudited)

As of:	**September 30, 2022**	December 31, 2021
ASSETS		
Loans	**$5,740,091**	$5,468,056
Allowance for loan losses	**16,822**	16,854
Net loans	**5,723,269**	5,451,202
Investment in AgriBank, FCB	**143,483**	134,343
Accrued interest receivable	**60,064**	45,779
Deferred tax assets, net	**--**	155
Other assets	**98,502**	87,523
Total assets	**$6,025,318**	$5,719,002
LIABILITIES		
Note payable to AgriBank, FCB	**$4,853,679**	$4,596,666
Accrued interest payable	**26,170**	15,936
Deferred tax liabilities, net	**248**	--
Patronage distribution payable	**29,286**	36,830
Other liabilities	**22,332**	27,971
Total liabilities	**4,931,715**	4,677,403
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Protected members' equity	**3**	4
Capital stock and participation certificates	**12,361**	12,472
Unallocated surplus	**1,081,239**	1,029,123
Total members' equity	**1,093,603**	1,041,599
Total liabilities and members' equity	**$6,025,318**	$5,719,002

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

FCS Financial, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
For the period ended September 30	**2022**	2021	**2022**	2021
Interest income	**$61,304**	$45,941	**$164,333**	$136,063
Interest expense	**26,277**	15,481	**62,380**	45,546
Net interest income	**35,027**	30,460	**101,953**	90,517
Provision for loan losses	**--**	--	**--**	--
Net interest income after provision for loan losses	**35,027**	30,460	**101,953**	90,517
Non-interest income				
Patronage income	**7,213**	6,141	**20,710**	18,927
Financially related services income	**1,590**	1,728	**1,960**	2,060
Fee income	**1,930**	1,494	**5,633**	9,326
Other non-interest income	**41**	30	**239**	297
Total non-interest income	**10,774**	9,393	**28,542**	30,610
Non-interest expense				
Salaries and employee benefits	**8,175**	8,139	**25,389**	24,237
Other operating expense	**8,516**	6,571	**23,727**	19,569
Other non-interest expense	**--**	--	**--**	1
Total non-interest expense	**16,691**	14,710	**49,116**	43,807
Income before income taxes	**29,110**	25,143	**81,379**	77,320
Provision for income taxes	**52**	47	**79**	396
Net income	**$29,058**	$25,096	**$81,300**	$76,924

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

FCS Financial, ACA

(in thousands)

(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2020	$6	$12,168	$962,803	$974,977
Net income	--	--	76,924	76,924
Unallocated surplus designated for patronage distributions	--	--	(26,071)	(26,071)
Capital stock and participation certificates issued	--	1,085	--	1,085
Capital stock and participation certificates retired	(1)	(835)	--	(836)
Balance at September 30, 2021	$5	$12,418	$1,013,656	$1,026,079
Balance at December 31, 2021	$4	$12,472	$1,029,123	$1,041,599
Net income	**--**	**--**	**81,300**	**81,300**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(29,184)**	**(29,184)**
Capital stock and participation certificates issued	**--**	**643**	**--**	**643**
Capital stock and participation certificates retired	**(1)**	**(754)**	**--**	**(755)**
Balance at September 30, 2022	**$3**	**$12,361**	**$1,081,239**	**$1,093,603**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim financial information and conform to generally accepted accounting principles in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the nine months ended September 30, 2022, are not necessarily indicative of the results to be expected for the year ending 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 Annual Report for the year ended December 31, 2021.

The Consolidated Financial Statements present the consolidated financial results of FCS Financial, ACA and its subsidiaries FCS Financial, FLCA and FCS Financial, PCA. 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 (FASB) 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 System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB 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.	We expect to adopt the standard as of January 1, 2023. We have completed development and validation of our model to estimate credit losses for our loan portfolio. The implementation of processes, procedures, internal controls, and policy updates are substantially complete. We are also in the process of drafting disclosures. The extent of the impact on our financial statements will depend on economic conditions, forecasts and the composition of our loan portfolio at the time of adoption.
In March 2022, the FASB 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.	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.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**September 30, 2022**		December 31, 2021	
	Amount	%	Amount	%
Real estate mortgage	**$3,474,940**	**60.5%**	$3,362,319	61.6%
Production and intermediate-term	**625,758**	**10.9%**	702,116	12.8%
Agribusiness	**1,208,758**	**21.1%**	1,030,672	18.8%
Other	**430,635**	**7.5%**	372,949	6.8%
Total	**$5,740,091**	**100.0%**	$5,468,056	100.0%

The other category is primarily composed of rural infrastructure related loans and other diversified industries in our capital markets portfolio.

Delinquency

Aging Analysis of Loans

(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
Real estate mortgage	**$1,430**	**$664**	**$2,094**	**$3,515,645**	**$3,517,739**
Production and intermediate-term	**648**	**968**	**1,616**	**635,792**	**637,408**
Agribusiness	**311**	**--**	**311**	**1,213,190**	**1,213,501**
Other	**--**	**--**	**--**	**431,507**	**431,507**
Total	**$2,389**	**$1,632**	**$4,021**	**$5,796,134**	**$5,800,155**

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
Real estate mortgage	$2,154	$ --	$2,154	$3,393,272	$3,395,426
Production and intermediate-term	598	138	736	710,410	711,146
Agribusiness	--	--	--	1,033,799	1,033,799
Other	190	--	190	373,274	373,464
Total	$2,942	$138	$3,080	$5,510,755	$5,513,835

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest as of September 30, 2022, or December 31, 2021.

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.

Risk Loan Information

(in thousands) As of:	**September 30, 2022**	December 31, 2021
Volume with specific allowance	**$4,240**	$5,269
Volume without specific allowance	**15,368**	7,171
Total risk loans	**$19,608**	$12,440
Total specific allowance	**$1,053**	$4,051
For the nine months ended September 30	**2022**	2021
Income on accrual risk loans	**$80**	$53
Income on nonaccrual loans	**751**	1,342
Total income on risk loans	**$831**	$1,395
Average risk loans	**$13,426**	$11,300

Note: Accruing loans include accrued interest receivable.

We had no material commitments to lend additional money to borrowers whose loans were classified as risk loans as of September 30, 2022.

Troubled Debt Restructurings (TDRs)

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 TDR, also known as a formally restructured loan for regulatory purposes. 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 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. There may be modifications made in the normal course of business that would not be considered TDRs.

There were no TDRs that occurred during the nine months ended September 30, 2022.

We completed TDRs of certain production and intermediate-term loans during the nine months ended September 30, 2021. Our recorded investment in these loans just prior to and immediately following the restructuring was $354 thousand. The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary type of modification was extension of maturity.

There were no TDRs that defaulted during the nine months ended September 30, 2022, or 2021, in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	**September 30, 2022**	December 31, 2021
Accrual status:		
Real estate mortgage	**$569**	$811
Production and intermediate-term	**209**	229
Agribusiness	**1,801**	--
Total TDRs in accrual status	**$2,579**	$1,040
Nonaccrual status:		
Real estate mortgage	**$371**	$2,243
Production and intermediate-term	**481**	629
Agribusiness	**--**	3
Total TDRs in nonaccrual status	**$852**	$2,875
Total TDRs:		
Real estate mortgage	**$940**	$3,054
Production and intermediate-term	**690**	858
Agribusiness	**1,801**	3
Total TDRs	**$3,431**	$3,915

There were no commitments to lend to borrowers whose loans have been modified in a TDR as of September 30, 2022.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Nine months ended September 30	**2022**	2021
Balance at beginning of period	**$16,854**	$16,850
Loan recoveries	**25**	59
Loan charge-offs	**(57)**	(122)
Balance at end of period	**$16,822**	$16,787

NOTE 3: CONTINGENCIES AND COMMITMENTS

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 Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

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, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

Refer to Note 10 in our 2021 Annual Report for additional detail regarding contingencies and commitments.

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 input levels 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 as of September 30, 2022, or December 31, 2021.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of September 30, 2022	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$3,346**	**$3,346**

As of December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$1,279	$1,279

Valuation Techniques

Impaired Loans: Represents the carrying amount 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 are classified as 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 are classified as Level 3.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 8, 2022, which is the date the Consolidated 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.