# 2022

## Q1 SHAREHOLDER REPORT

YOUR PARTNER IN AGRICULTURE.

FARM CREDIT
OF SOUTHERN COLORADO

## NOTICE TO STOCKHOLDERS

The shareholders' investment in Farm Credit of Southern Colorado, ACA is materially affected by the financial condition and results of operations of CoBank, ACB (CoBank). The 2021 CoBank Annual Report to Shareholders, and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at:

**Farm Credit of Southern Colorado, ACA**
**5110 Edison Avenue, PO Box 75640**
**Colorado Springs, Colorado 80970-5640**
**Phone Number: 800-815-8559**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Southern Colorado, ACA (the Association) for the three months ended March 31, 2022, with comparisons to prior periods. The following discussion and analysis should be read in conjunction with the accompanying quarterly financial statements and related notes and our 2021 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

Our lending territory spans over a diverse region of southern and eastern Colorado through the southern front range and into the San Luis Valley. The most notable change in economic conditions in our territory in the first quarter of 2022 is the sharply rising interest rate environment. The rising interest rates are in response to overall inflation in the economy and the Federal Reserve is projected to increase rates several more times during 2022.

The United States Bureau of Labor Statistics reports that the Consumer Price Index for All Urban Consumers rose 8.5 percent for the twelve months ending March 31, 2022. The food index increased 8.8 percent over the same time period and the energy index increased 32.0 percent. The United States Bureau of Labor Statistics also reported that unemployment rates decreased further in March 2022 to 3.6 percent. Producers in our territory are dealing with the impacts of inflation on all inputs, including chemicals, fertilizer, fuel, parts and capital.

Drought conditions have improved throughout much of our territory during the first quarter of 2022 primarily due to receiving late winter snow. While all of our territory is still experiencing drought, the classifications have improved to United States Department of Agriculture (USDA) drought designations of Moderate Drought (D1) to Extreme Drought (D3). A majority of our territory was classified with a USDA drought designation of Severe Drought (D2) to Extreme Drought (D3) at the end of 2021. Drought conditions have improved the most in the northern and central areas of our territory while Extreme Drought (D3) conditions persist in the southern counties of our territory.

Producers in the northern and eastern areas of our territory have benefited from localized storms. Winter wheat conditions are highly variable with some areas exhibiting strong stands with adequate subsoil moisture. Other areas are showing spotty coverage with some evidence of either winter kill or crops that failed to germinate last fall. The dry winter conditions and recent moisture continue to affect the cow/calf operations. Overall, we've experienced an open winter and calving season is progressing well. USDA National Agricultural Statistics Service (NASS) reports pasture and range conditions as 40 percent very poor to poor condition with 50 percent fair to good condition and 10 percent excellent condition in the first quarter of 2022. These values reflect an improvement over the same period in 2021.

Cattle, corn, wheat, potatoes and hay crops represent the top five commodity concentrations in our association. Cattle is our largest commodity made up primarily of cow/calf, fed cattle and stockers. Beef producers in our territory experienced generally dry conditions in the first quarter. Calving season is progressing with few issues. Stocker operations have purchased calves with opportunity to lock in profitable gains for the year. The biggest challenge, as usual, is dry conditions. Producers will need spring storms to provide moisture in order to grow grass in the pastures. Prices for various classes of beef cattle are mixed over the first quarter of 2022. Spot market live cattle prices are up approximately $3 from $136 to $139/hundredweight (cwt) at quarter end. Feeder cattle spot market priced were down $10/cwt from $165/cwt to $155/cwt at quarter end. Prices for beef calves are also down $10 to 15/cwt from year end although this is likely a seasonal market change for this class of beef calves.

The end of the first quarter brings planting season for spring crops including corn. Based on the insured value of corn for 2022, it appears that corn will be a strong contender for spring crop acres in our territory this year. Subsoil moisture conditions are not ideal for planting corn, however, the insured value of the crop based on the price/bushel (bu) will likely cause many producers to take the chance that later moisture will carry the crop through to harvest. Corn futures markets have strengthened over the course of the first quarter of 2022. At quarter end, the December delivery contract closed at $6.83/bu, up $1.37 from the previous year end.

Wheat markets rallied sharply in the first quarter of 2022 in response to the Russian invasion of Ukraine. The July delivery contract for the Kansas City Board of Trade is up from $7.97/bu at year end to $10.29/bu on March 31, 2022. Producers have had opportunities to price all grains at profitable levels throughout the first quarter of 2022. Hay prices have remained strong throughout the year, supported by limited supplies across the country. USDA reports that winter wheat in Colorado is 61 percent fair to excellent condition with 39 percent poor to very poor condition. The crop was planted into variable moisture conditions last fall. Wheat is beginning to exit dormancy and crop conditions in our territory for winter wheat are highly variable at this point. Some areas appear to be in good to excellent condition while other areas show signs of winter kill, blowing topsoil and spotty emergence.

Potatoes are primarily grown in the San Luis Valley, which is in the southwest region of our territory. This area has received average to above average snowfall over the winter which will support irrigation programs during the summer. Moisture during the first quarter has improved the snowpack and therefore the outlook for irrigation water availability for the 2022 growing season. We expect continued strong demand for potatoes throughout the 2022 season. The Grower Returns Index for potatoes in the San Louis Valley are currently reported at $13.07/cwt, up $1.96/cwt from the same period in 2021.

Alfalfa is grown in the San Luis Valley as well as along the lower Arkansas River in the southeastern portion of our territory. USDA NASS shows that hay prices in our territory are holding strong based on reduced supplies.

Demand for rural properties remains strong while supply is limited. We have observed fewer farms listed for sale in our territory this quarter and properties that are listed for sale go under contract quickly. The market supports strong price points for all classes of real estate, however, the projected increase in interest rates for 2022 may slow demand for rural properties later in the year.

The broader economy and marketplace continue to transition into another phase of the COVID-19 pandemic environment, accompanied by concerns related to the war in Ukraine. As the COVID-19 pandemic issues subside and issues related to the war increase, the U.S. economy remains healthy and continues to be driven by strong consumer spending. However, spending cooled slightly in February 2022, according to Reuters. While higher consumer demand is beneficial to businesses, severe supply chain disruptions, labor shortages and the high cost of fuel are adding significant costs to business operations and these costs are likely to be passed on to the consumer. Business operating costs are still rising faster than consumer prices, so elevated inflation is a concern in 2022. From a monetary policy perspective, the Fed has announced plans to increase rates multiple times in 2022, with the first interest rate increase of 25 basis points in March 2022. Anticipation of tighter monetary policy is contributing to a stronger dollar and changes in the shape of the yield curve.

## LOAN PORTFOLIO

Loans outstanding at March 31, 2022, totaled $1.37 billion, a decrease of $5.0 million, or 0.36%, from loans of $1.38 billion at December 31, 2021. The decrease was primarily due to a decrease in our core portfolio resulting from seasonal paydowns of operating and term loans. These paydowns were partially offset by an increase in our purchased participations portfolio.

## RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2022, was $5.9 million, an increase of $2.0 million, or 51.49%, from the same period ended one year ago. The increase is primarily due to an increase in net interest income, noninterest income and the credit loss reversal, partially offset by an increase in noninterest expense.

For the three months ended March 31, 2022, net interest income was $8.9 million, an increase of $1.4 million, or 18.80%, compared with the three months ended March 31, 2021. Net interest income increased as a result of an increase in average accrual loan volume along with increased return on our loanable funds.

The credit loss reversal for the three months ended March 31, 2022, was $468 thousand, a decrease of $609 thousand from the provision for credit losses for the same period ended one year ago. The credit loss reversal is a result of an increase in credit quality across our portfolio and the utilization of the updated Combined System Risk Rating Guidance published in September 2021. In addition, the provision for unfunded commitments decreased due to decreased unfunded commitments. The provision for credit loss in the first quarter of 2021 was due to increases in the reserve for unfunded commitments and management reserve. Downgrades of credit facilities in the Core and Capital Markets portfolios attributed to the increase in reserves for unfunded commitments. The management reserve increase was due to a slightly higher concentration in stressed commodity categories and increased economic risk due to prolonged drought and COVID impacts.

Noninterest income increased $694 thousand during the first three months of 2022 compared with the first three months of 2021 primarily due to an increase in patronage, mineral income and other noninterest income. Patronage income from Farm Credit institutions increased in the first three months ended March 31, 2022, compared with the first three months in 2021 primarily due to increased patronage from CoBank resulting from their higher target patronage rate as well as an increase in our average net note payable to them. The increase in other noninterest income is primarily due to lease income recognized from the Colorado Springs administrative building.

We received mineral income of $257 thousand during the first three months of 2022, which is distributed to us quarterly by CoBank. The increase for the three months ended March 31, 2022, compared with first three months of 2021 is reflective of the higher oil and gas commodity prices paid on production during the period.

During the first three months of 2022, noninterest expense increased $697 thousand to $5.4 million, primarily due to increases in salaries and employee benefits of $426 thousand. In addition, purchased services from AgVantis increased $97 thousand, the Farm Credit Insurance Fund premium increased $75 thousand and other noninterest expense increased $116 thousand. Salaries and employee benefits expense increased primarily due to an increase in staffing levels along with an increase in incentive expense, partially offset by lower pension expense. The increase in purchased services from AgVantis is due to an increase in the annual subscription fee and the increase in the Farm Credit Insurance Fund premium is due to an increase in our average net note payable to CoBank. The increase in other noninterest expense was driven by a $48 thousand increase in director related expenses, a $38 thousand increase in public and member relations expenses as well as a $28 thousand increase in advertising and marketing expenses.

## CAPITAL RESOURCES

Our shareholders' equity at March 31, 2022, was $283.1 million, an increase from $277.1 million at December 31, 2021. This increase is due to net income and net stock issuances.

## CHANGES IN LEADERSHIP AND BOARD OF DIRECTORS

In February 2022, Sean Lawrence was promoted to Chief Risk Officer from Vice President of Risk Management and Stacy Loutzenhiser was promoted to Chief Business Development Officer from Vice President of Business Development.

In April 2022, the Board appointed Julie Fortenbery to fill the vacant appointed Director position.

## OTHER MATTERS

On March 5, 2021, the United Kingdom's Financial Conduct Authority (UKFCA), formally announced that all LIBOR tenors will either be discontinued or no longer be representative immediately after December 31, 2021. As a result, the UKFCA has closely worked with market participants and regulatory authorities around the world to ensure that alternatives to LIBOR are available and that existing contracts can be transitioned onto these alternatives to safeguard financial stability and market integrity.

On December 8, 2021, the FCA issued an informational memorandum to provide additional guidance to Farm Credit System institutions on their transition away from LIBOR. The guidance encourages Farm Credit System institutions to stop entering into new contracts that reference LIBOR as soon as practicable and in any event no later than December 31, 2021. Entering into new LIBOR-referenced contracts after that date would present safety and soundness risk. The guidance also provides clarity on what the FCA considers a new LIBOR-indexed contract; whether purchases of legacy LIBOR-indexed loans and investments are deemed new contracts; limited exceptions for entering into new LIBOR contracts that reduce or hedge risk in legacy LIBOR contracts; and the due diligence and other procedures required before using other benchmark/reference rate alternatives to LIBOR (beyond SOFR), including credit-sensitive alternative rates.

On March 15, 2022, the U.S. government passed the Consolidated Appropriations Act of 2022, which includes federal legislation regarding the LIBOR transition. The legislation provides a statutory fallback mechanism to replace LIBOR with a benchmark rate, selected by the Federal Reserve Board and based on SOFR, for certain contracts that reference LIBOR and contain no or insufficient fallback provisions. The law also provides a safe harbor for parties who select the statutory benchmark replacement rate.

At March 31, 2022, our Association did not hold any legacy LIBOR indexed loans in our Core portfolio and the transition from LIBOR indexed loans did not have a material impact on our Association. Our Association currently holds legacy LIBOR indexed loans in participations we have purchased. We have adopted a transition plan to reduce LIBOR exposures and stop the inflow of new LIBOR volume. We have analyzed potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. Management has documented and worked through the LIBOR transition plan with our funding bank and service provider to address the phase out of LIBOR rates, including any updates to processes and loan servicing technology.

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

//signed//____________________________
Mark Peterson
Chairman of the Board
May 10, 2022

//signed//____________________________
Jeremy M Anderson
CEO
May 10, 2022

//signed//____________________________
Shawna R Neppl
CFO
May 10, 2022

## Consolidated Statement of Condition

(Dollars in Thousands)

| | March 31 2022 | December 31 2021 |
|---|---|---|
| | **UNAUDITED** | AUDITED |
| **ASSETS** | | |
| Loans | **$ 1,370,801** | $ 1,375,787 |
| Less allowance for loan losses | **2,714** | 3,100 |
| Net loans | **1,368,087** | 1,372,687 |
| Cash | **2,551** | 3,507 |
| Accrued interest receivable | **15,692** | 16,904 |
| Investment in CoBank, ACB | **34,832** | 35,248 |
| Investment in AgDirect | **1,507** | 1,621 |
| Premises and equipment, net | **12,255** | 12,398 |
| Prepaid benefit expense | **6,286** | 5,821 |
| Other assets | **3,083** | 7,309 |
| **Total assets** | **$ 1,444,293** | $ 1,455,495 |
| **LIABILITIES** | | |
| Note payable to CoBank, ACB | **$ 1,132,737** | $ 1,150,045 |
| Advance conditional payments | **23,185** | 11,902 |
| Accrued interest payable | **1,253** | 1,251 |
| Patronage distributions payable | **-** | 8,500 |
| Accrued benefits liability | **145** | 146 |
| Reserve for unfunded commitments | **486** | 568 |
| Other liabilities | **3,412** | 5,948 |
| **Total liabilities** | **1,161,218** | 1,178,360 |
| **Commitments and Contingencies** | | |
| **SHAREHOLDERS' EQUITY** | | |
| Preferred stock | **776** | 776 |
| Capital stock | **1,815** | 1,777 |
| Unallocated retained earnings | **280,484** | 274,582 |
| **Total shareholders' equity** | **283,075** | 277,135 |
| **Total liabilities and shareholders' equity** | **$ 1,444,293** | $ 1,455,495 |

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

## Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

| | For the three months ended March 31 | |
|---|---|---|
| UNAUDITED | **2022** | 2021 |
| **INTEREST INCOME** | | |
| Loans | **$ 13,238** | $ 11,360 |
| **Total interest income** | **13,238** | 11,360 |
| **INTEREST EXPENSE** | | |
| Note payable to CoBank, ACB | **4,357** | 3,883 |
| Other | **2** | 3 |
| **Total interest expense** | **4,359** | 3,886 |
| Net interest income | **8,879** | 7,474 |
| (Credit loss reversals)/Provision for credit losses | **(468)** | 141 |
| Net interest income after credit loss reversals/provision for credit losses | **9,347** | 7,333 |
| **NONINTEREST INCOME** | | |
| Financially related services income | **14** | 41 |
| Loan fees | **111** | 94 |
| Patronage distribution from Farm Credit institutions | **1,444** | 991 |
| Mineral income | **257** | 119 |
| Other noninterest income | **158** | 45 |
| **Total noninterest income** | **1,984** | 1,290 |
| **NONINTEREST EXPENSE** | | |
| Salaries and employee benefits | **2,931** | 2,505 |
| Occupancy and equipment | **326** | 348 |
| Purchased services from AgVantis, Inc. | **730** | 633 |
| Farm Credit Insurance Fund premium | **435** | 360 |
| Supervisory and examination costs | **108** | 103 |
| Other noninterest expense | **890** | 774 |
| **Total noninterest expense** | **5,420** | 4,723 |
| Income before income taxes | **5,911** | 3,900 |
| Provision for income taxes | **9** | 4 |
| **Net income/Comprehensive income** | **$ 5,902** | $ 3,896 |

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

# Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

| UNAUDITED | Preferred Stock | Capital Stock | Unallocated Retained Earnings | Total Shareholders' Equity |
|---|---|---|---|---|
| **Balance at December 31, 2020** | $ 953 | $ 1,635 | $ 263,068 | $ 265,656 |
| Comprehensive income | | | 3,896 | 3,896 |
| Stock issued | - | 73 | | 73 |
| Stock retired | (52) | (59) | | (111) |
| **Balance at March 31, 2021** | $ 901 | $ 1,649 | $ 266,964 | $ 269,514 |
| | | | | |
| **Balance at December 31, 2021** | $ 776 | $ 1,777 | $ 274,582 | $ 277,135 |
| Comprehensive income | | | 5,902 | 5,902 |
| Stock issued | - | 80 | | 80 |
| Stock retired | - | (42) | | (42) |
| **Balance at March 31, 2022** | **$ 776** | **$ 1,815** | **$ 280,484** | **$ 283,075** |

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

## NOTES TO FINANCIAL STATEMENTS
(Unaudited)

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of Southern Colorado, ACA (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 Shareholders. These unaudited first quarter 2022 financial statements should be read in conjunction with the 2021 Annual Report to Shareholders.

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 Shareholders.

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

#### Recently Adopted or Issued Accounting Pronouncements

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 methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to 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 this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB approved deferral of the effective date for certain entities for this guidance by two years, which will result in the new credit loss standard becoming effective for interim and annual reporting periods beginning after December 15, 2022 with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

### NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

| *(dollars in thousands)* | **March 31, 2022** | December 31, 2021 |
|---|---|---|
| Real estate mortgage | **$ 890,811** | $ 884,391 |
| Production and intermediate-term | **200,163** | 240,148 |
| Agribusiness | **198,996** | 171,148 |
| Rural infrastructure | **71,557** | 70,827 |
| Agricultural export finance | **8,515** | 8,512 |
| Rural residential real estate | **21** | 23 |
| Mission-related | **738** | 738 |
| Total loans | **$ 1,370,801** | $ 1,375,787 |

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2022:

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Purchased | Sold | Purchased | Sold | Purchased | Sold |
| Real estate mortgage | $ 38,842 | $ 56,683 | $ 757 | $ 7,000 | $ 39,599 | $ 63,683 |
| Production and intermediate-term | 33,833 | - | - | - | 33,833 | - |
| Agribusiness | 192,227 | - | - | - | 192,227 | - |
| Rural infrastructure | 71,557 | - | - | - | 71,557 | - |
| Agricultural export finance | 8,515 | - | - | - | 8,515 | - |
| Total | $ 344,974 | $ 56,683 | $ 757 | $ 7,000 | $ 345,731 | $ 63,683 |

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

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

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

| | **March 31, 2022** | December 31, 2021 |
|---|---|---|
| Real estate mortgage | | |
| Acceptable | **95.51%** | 94.23% |
| OAEM | **2.11%** | 2.97% |
| Substandard | **2.33%** | 2.74% |
| Doubtful | **0.05%** | 0.06% |
| Total | **100.00%** | 100.00% |
| Production and intermediate-term | | |
| Acceptable | **97.71%** | 95.64% |
| OAEM | **0.91%** | 1.06% |
| Substandard | **1.38%** | 3.30% |
| Total | **100.00%** | 100.00% |
| Agribusiness | | |
| Acceptable | **97.14%** | 97.98% |
| OAEM | **2.31%** | 1.45% |
| Substandard | **0.55%** | 0.57% |
| Total | **100.00%** | 100.00% |
| Rural infrastructure | | |
| Acceptable | **97.37%** | 97.34% |
| OAEM | **2.63%** | 2.66% |
| Total | **100.00%** | 100.00% |
| Agricultural export finance | | |
| Acceptable | **100.00%** | 100.00% |
| Total | **100.00%** | 100.00% |
| Rural residential real estate | | |
| Acceptable | **100.00%** | 100.00% |
| Total | **100.00%** | 100.00% |
| Mission related | | |
| Substandard | **100.00%** | 100.00% |
| Total | **100.00%** | 100.00% |
| Total Loans | | |
| Acceptable | **96.14%** | 95.08% |
| OAEM | **1.97%** | 2.42% |
| Substandard | **1.85%** | 2.46% |
| Doubtful | **0.04%** | 0.04% |
| Total | **100.00%** | 100.00% |

High risk assets consist of impaired loans and other property owned. These nonperforming assets (including related accrued interest) are as follows:

| *(dollars in thousands)* | **March 31, 2022** | December 31, 2021 |
|---|---|---|
| Nonaccrual loans | | |
| Real estate mortgage | **$ 6,252** | $ 5,982 |
| Total nonaccrual loans | **$ 6,252** | $ 5,982 |
| Accruing restructured loans | | |
| Real estate mortgage | **$ 384** | $ 392 |
| Production and intermediate-term | **42** | 20 |
| Total accruing restructured loans | **$ 426** | $ 412 |
| Total impaired loans | **$ 6,678** | $ 6,394 |

The Association had no accruing loans 90 days past due and no other property owned for the periods presented.

Additional impaired loan information is as follows:

| | **March 31, 2022** | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| Impaired loans with no related allowance for loan losses: | | | | | | |
| Real estate mortgage | **$ 6,636** | **$ 8,911** | | $ 6,374 | $ 8,640 | |
| Production and intermediate-term | **42** | **39** | | 20 | 8 | |
| Agribusiness | **-** | **110** | | – | 110 | |
| Total | **6,678** | **$ 9,060** | | $ 6,394 | $ 8,758 | |
| Total impaired loans: | | | | | | |
| Real estate mortgage | **$ 6,636** | **$ 8,911** | **$ -** | $ 6,374 | $ 8,640 | $ - |
| Production and intermediate-term | **42** | **39** | **-** | 20 | 8 | - |
| Agribusiness | **-** | **110** | **-** | – | 110 | - |
| Total | **$ 6,678** | **$ 9,060** | **$ -** | $ 6,394 | $ 8,758 | $ - |

Note: The recorded investment in the loan 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 loan receivable.

| | **For the Three Months Ended March 31, 2022** | | For the Three Months Ended March 31, 2021 | |
|---|---|---|---|---|
| *(dollars in thousands)* | Average Impaired Loans | Interest Income Recognized | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for credit losses: | | | | |
| Real estate mortgage | **$ -** | **$ -** | $ 555 | $ – |
| Mission-related | **-** | **-** | 813 | – |
| Total | **$ -** | **$ -** | $ 1,368 | $ – |
| Impaired loans with no related allowance for credit losses: | | | | |
| Real estate mortgage | **$ 6,393** | **$ 6** | $ 6,564 | $ 5 |
| Production and intermediate-term | **18** | **-** | 121 | 1 |
| Total | **$ 6,411** | **$ 6** | $ 6,685 | $ 6 |
| Total impaired loans: | | | | |
| Real estate mortgage | **$ 6,393** | **$ 6** | $ 7,119 | $ 5 |
| Production and intermediate-term | **18** | **-** | 121 | 1 |
| Mission-related | **-** | **-** | 813 | – |
| Total | **$ 6,411** | **$ 6** | $ 8,053 | $ 6 |

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

| *(dollars in thousands)* | **March 31, 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 | Recorded Investment in Loans Outstanding | Recorded Investment Accruing Loans 90 Days or More Past Due |
| Real estate mortgage | $ 396 | $ 382 | $ 778 | $ 901,848 | $ 902,626 | $ - |
| Production and intermediate-term | 6 | - | 6 | 203,513 | 203,519 | - |
| Agribusiness | – | - | - | 199,394 | 199,394 | - |
| Rural infrastructure | – | - | - | 71,663 | 71,663 | - |
| Agricultural export finance | – | - | - | 8,530 | 8,530 | - |
| Rural residential real estate | – | - | - | 21 | 21 | - |
| Mission-related | – | - | - | 740 | 740 | - |
| Total | $ 402 | $ 382 | $ 784 | $1,385,709 | $ 1,386,493 | $ - |

| *(dollars in thousands)* | 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 | Recorded Investment in Loans Outstanding | Recorded Investment Accruing Loans 90 Days or More Past Due |
| Real estate mortgage | $ 786 | $ - | $ 786 | $ 896,023 | $ 896,809 | $ - |
| Production and intermediate-term | 2,148 | - | 2,148 | 241,897 | 244,045 | - |
| Agribusiness | - | - | - | 171,638 | 171,638 | - |
| Rural infrastructure | - | - | - | 70,911 | 70,911 | - |
| Agricultural export finance | - | - | - | 8,525 | 8,525 | - |
| Rural residential real estate | - | - | - | 23 | 23 | - |
| Mission-related | - | - | - | 740 | 740 | - |
| Total | $ 2,934 | $ - | $ 2,934 | $1,389,757 | $ 1,392,691 | $ - |

A summary of changes in the allowance for loan losses is as follows:

| *(dollars in thousands)* | Balance at December 31, 2021 | Charge-offs | Recoveries | Provision for Loan Losses/ (Loan Loss Reversals) | Balance at March 31, 2022 |
|---|---|---|---|---|---|
| Real estate mortgage | $ 943 | $ - | $ - | $ (126) | $ 817 |
| Production and intermediate-term | 997 | - | - | (349) | 648 |
| Agribusiness | 800 | - | - | 94 | 894 |
| Rural infrastructure | 240 | - | - | 2 | 242 |
| Agricultural export finance | 5 | - | - | 1 | 6 |
| Mission-related | 115 | - | - | (8) | 107 |
| Total | $ 3,100 | $ - | $ - | $ (386) | $ 2,714 |

| (dollars in thousands) | Balance at December 31, 2020 | Charge-offs | Recoveries | Provision for Loan Losses/ (Loan Loss Reversals) | Balance at March 31, 2021 |
|---|---|---|---|---|---|
| Real estate mortgage | $ 1,074 | $ - | $ - | $ (58) | $ 1,016 |
| Production and intermediate-term | 857 | - | - | 92 | 949 |
| Agribusiness | 1,021 | - | - | 25 | 1,046 |
| Rural infrastructure | 265 | - | - | (2) | 263 |
| Agricultural export finance | 9 | - | - | 2 | 11 |
| Mission-related | 600 | - | - | - | 600 |
| Total | $ 3,826 | $ - | $ - | $ 59 | $ 3,885 |

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Association's Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses. A summary of changes in the reserve for unfunded commitments follows:

| | For the Three Months Ended March 31 | |
|---|---|---|
| (dollars in thousands) | **2022** | 2021 |
| Balance at beginning of period | **$ 568** | $ 476 |
| Provision for/(Reversal of) reserves for unfunded commitments | **(82)** | 82 |
| Total | **$ 486** | $ 558 |

Additional information on the allowance for loan losses follows:

| | Allowance for Loan Losses Ending Balance at March 31, 2022 | | Recorded Investments in Loans Outstanding Ending Balance at March 31, 2022 | |
|---|---|---|---|---|
| (dollars in thousands) | Individually evaluated for impairment | Collectively evaluated for impairment | Individually evaluated for impairment | Collectively evaluated for impairment |
| Real estate mortgage | $ - | $ 817 | $ 6,636 | $ 895,990 |
| Production and intermediate-term | - | 648 | 42 | 203,477 |
| Agribusiness | - | 894 | - | 199,394 |
| Rural infrastructure | - | 242 | - | 71,663 |
| Agricultural export finance | - | 6 | - | 8,530 |
| Rural residential real estate | - | - | - | 21 |
| Mission-related | - | 107 | - | 740 |
| Total | $ - | $ 2,714 | $ 6,678 | $ 1,379,815 |

| (dollars in thousands) | Allowance for Loan Losses Ending Balance at December 31, 2021 | | Recorded Investments in Loans Outstanding Ending Balance at December 31, 2021 | |
|---|---|---|---|---|
| | Individually evaluated for impairment | Collectively evaluated for impairment | Individually evaluated for impairment | Collectively evaluated for impairment |
| Real estate mortgage | $ - | $ 943 | $ 6,374 | $ 890,435 |
| Production and intermediate-term | - | 997 | 20 | 244,025 |
| Agribusiness | - | 800 | - | 171,638 |
| Rural infrastructure | - | 240 | - | 70,911 |
| Agricultural export finance | - | 5 | - | 8,525 |
| Rural residential real estate | - | - | - | 23 |
| Mission-related | - | 115 | - | 740 |
| Total | $ - | $ 3,100 | $ 6,394 | $ 1,386,297 |

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Association recorded no new TDRs during the three months ended March 31, 2022 or March 31, 2021.

The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during the first three months of 2022 and 2021. Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings were $1.2 million at March 31, 2022 and December 31, 2021. The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table.

| (dollars in thousands) | Loans modified as TDRs | | TDRs in Nonaccrual Status* | |
|---|---|---|---|---|
| | **March 31, 2022** | December 31, 2021 | **March 31, 2022** | December 31, 2021 |
| Real estate mortgage | **$ 384** | $ 392 | **$ -** | $ – |
| Production and intermediate-term | **42** | 20 | **-** | – |
| Total | **$ 426** | $ 412 | **$ -** | $ – |

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

## NOTE 3 - CAPITAL

A summary of select capital ratios based on a three-month average and minimums set by the Farm Credit Administration follows.

| | **As of March 31, 2022** | As of December 31, 2021 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk Adjusted: | | | | | |
| Common equity tier 1 ratio | **16.49%** | 16.57% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **16.49%** | 16.57% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | **16.74%** | 16.82% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **16.58%** | 16.66% | 7.0% | – | 7.0% |
| Non-Risk Adjusted: | | | | | |
| Tier 1 leverage ratio | **17.19%** | 17.36% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **17.06%** | 18.06% | 1.5% | – | 1.5% |

If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

## 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 the principal or most advantageous market for the asset or liability. See Note 2 of the 2021 Annual Report to Shareholders for a more complete description.

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

| | Fair Value Measurement Using | | | Total Fair |
|---|---|---|---|---|
| *(dollars in thousands)* | **Level 1** | **Level 2** | **Level 3** | **Value** |
| Assets held in nonqualified benefits trusts | | | | |
| **March 31, 2022** | **$ 91** | **$ –** | **$ –** | **$ 91** |
| December 31, 2021 | $ 81 | $ – | $ – | $ 81 |

The Association had no liabilities measured at fair value on a recurring basis at March 31, 2022 or December 31, 2021.

With regard to impaired loans, 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 takes into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

The Association's loans measured at fair value on a non-recurring basis were completely charged off as of March 31, 2022 and December 31, 2021. The Association had no liabilities measured at fair value on a non-recurring basis at March 31, 2022 or December 31, 2021.

### Valuation Techniques

As more fully discussed in Note 2 of the 2021 Annual Report to Shareholders, 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 presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

*Assets Held in Non-Qualified Benefits Trusts*

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

*Loans Evaluated for Impairment*

For impaired loans measured on a non-recurring basis, 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.

## NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 10, 2022, which is the date the financial statements were issued, and no material subsequent events were identified.