# Farm Credit Services of Western Arkansas, ACA

**Quarterly Report**
**March 31, 2022**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Services of Western Arkansas, ACA and its subsidiaries, Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, 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 (2021 Annual Report).

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

Russia's recent military action in Ukraine significantly increased the uncertainty of agriculture supply and demand conditions in the region and globally. While not a battleground, the Russian economy is being jarred by Western economic sanctions. The issue of immediate concern is Ukraine's ability to export the remaining share of its 2021/2022 grain harvest. Ukraine was projected to export a total of 33.5 million tons of corn and has already exported more than 17 million tons of corn leaving about 16 million tons available for export later in the year.

There are three reasons Ukrainian exports are expected to decrease. Military action is expected to damage some of the stored grain. Russian advances are harming physical Ukrainian infrastructure making transportation of stored grain to the export ports on the Black Sea close to impossible. Lastly, the Black Sea ports have been closed and commercial shipping has been suspended after the invasion began.

**Row Crops:** A sharp cut in Ukrainian corn exports is bound to trigger substantial changes in the global corn markets. This cut is expected to be partially offset by higher exports of other major corn suppliers. The United States (U.S.) is projected to have the largest rise in corn exports of 2.0 million tons. However, this increase is not projected to make up for all the lost Black Sea corn exports and global corn trade is projected lower. The reduction in projected global corn trade combined with fairly low levels of global corn stocks in major exporting countries along with geopolitical uncertainty has generated a grain price spike. Substantially higher prices are expected to ration demand for grain and reduce imports in a number of countries. The projected season average farm price for 2021/2022 for corn has raised $0.20 per bushel to $5.65.

Based on shrinking prospects for South American crops, United States Department of Agriculture's (USDA) forecast of the average soybean price received by U.S. farmers in the 2021/2022 growing season increased to $13.25 per bushel from $13.00 last month. Global soybean production for 2021/2022 decreased by 10 million metric tons this month to 353.8 million metric tons due to deteriorating conditions for the soybean crops in Southern Brazil, Paraguay, and Argentina.

Global rice trade in calendar year 2022 is projected at 50.9 million tons (milled basis), up almost 1.5 million tons from the previous forecast with India and Pakistan accounting for most of the upward revision in exports. Global rice consumption and residual use in 2021/2022 is projected to be a record 510.4 million tons, up 0.1 million tons from the previous forecast with increases for Ethiopia, Nigeria, Pakistan, and Sri Lanka.

**Poultry:** Broiler production in January totaled 3.7 billion pounds, which is 2% above last year due to stronger average weights and an extra slaughter day compared to last year. Highly pathogenic avian influenza (HPAI) has returned to the U.S. USDA's Animal and Plant Health Inspection Services (APHIS) has reported cases in commercial broiler flocks in several broiler producing states. HPAI has not been reported in broiler flocks in the major broiler producing southeastern states. The last major U.S. outbreak of HPAI was in 2015.

The share of eggs in incubators that are successfully hatched and placed in grow out flocks has been declining since late 2020. Excluding the initial pandemic shock in the spring of 2020, about 79.5% to 81.5% of eggs set in recent years were typically placed 3 weeks later. In the week ending February 26, 77.6% of the eggs set 3 weeks before they were hatched and placed. This is down from a high of 78.4% earlier in the year.

Broiler production for 2022 was adjusted down by 260 million pounds from last month's projection to 45.2 billion pounds due to slow production at the beginning of the year, slow recovery in hatchability rates, and expectations of higher feed costs in the rest of 2022. January broiler meat exports totaled 557.9 million pounds which is a 10% decrease from last January with about 20% of the total volume going to Mexico. Increased shipments to some markets (Taiwan, Qatar, Guatemala, Turkey, and Haiti) were not enough to offset the decrease in shipments to Mexico, Angola, Vietnam, and Colombia. HPAI has not impacted broiler production in the U.S. The current state level import bans from trading partners are not yet expected to have a huge impact on broiler exports.

**Cattle:** The annual forecast for commercial beef production was raised 195 million pounds to 27.6 billion pounds from last month due to a stronger than expected non fed and fed cattle slaughter. Due to weather disruptions in February 2021, cow federally inspected slaughter was up 12.2% when compared to the same time last year.

Feeder cattle entering feedlots during January were below 2020 values while placements for the quarter are expected to be below a year earlier. Though deteriorating pasture conditions and wheat prices might encourage a more rapid placement rate than previously assumed. The average price for all grades of live steers sold in the 5 area marketing region in February 2022 was reported at $141.32 per hundredweight (cwt), which is up 24.1% or $27.42 from February 2021. The annual fed steer price forecast increased by $1.75 to $139.25 per cwt due to anticipated strong packer demand and tightening feedlot inventories moving forward.

On March 7, 2022, the feeder steer price for steers sold at the Oklahoma City National Stockyards had an average price of $149.14 per cwt which is $13.52 above the price recorded in the same week a year prior. The second quarter forecast was raised by $1.00 to $159.00 per cwt from last month due to tightening feeder cattle supplies and higher forecast fed cattle prices. Due to higher anticipated feed prices in the second half of 2022, the feeder steer forecast for the third and fourth quarters were reduced by $1.00 to $161.00 and $166.00 per cwt, respectively.

**Timber:** At the end of the first quarter of 2022, the state average stumpage price on pine sawtimber was $26.30 per ton with pine pulpwood at $5.37 per ton. Mixed hardwood sawtimber was $43.45 per ton and hardwood pulpwood $12.56 per ton. When compared to last year, the stumpage price on pine sawtimber for the first quarter 2022 was down $0.65 a ton, pine pulpwood was up $0.60 per ton, mixed hardwood sawtimber was up $7.71 per ton, and hardwood pulpwood was up $5.81 per ton. Softwood lumber prices continued to climb in the first quarter and have increased more than 160% since September of 2021. The March random lengths southern pine composite at $1,177 per thousand board feet (mbf) was up $398 quarter over quarter (+52%) and $246 year over year (+26%). Southern plywood and southern oriented strand board (OSB) prices both continued to climb this quarter, notably since August 2021, plywood prices have increased 94% and OSB prices have increased 211%.

U.S. residential building construction started strong in the first quarter of 2022 with housing starts year to date February the highest since 2007 and improvement expenditures year to date February the highest on record for this period.

Domtar announced the restart of one of its paper machines at its mill in Ashdown, AR, adding 185,000 tons per year of uncoated fresh sheet capacity. The machine had been idled since April 2020 due to reduced customer demand brought on by the COVID-19 pandemic. Drax Group announced in February the rebranding of its U.S. pellet business in the U.S. south, Drax Biomass, and recently acquired pellet producer, Pinnacle Renewable Energy as Drax. Drax also announced in February the startup of its 40,000 metric ton per year satellite pellet mill in Leola, AR.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were $1.7 billion at March 31, 2022, an increase of $48.2 million from December 31, 2021.

### Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2021. Adversely classified loans decreased to 1.1% of the portfolio at March 31, 2022, from 1.2% of the portfolio at 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. At March 31, 2022, $38.8 million of our loans were substantially guaranteed under these government programs.

## Risk Assets

**Components of Risk Assets**

| (dollars in thousands) As of: | **March 31, 2022** | December 31, 2021 |
|---|---|---|
| Loans: | | |
| Nonaccrual | **$ 5,385** | $ 5,885 |
| Accruing restructured | **2,452** | 2,914 |
| Accruing loans 90 days or more past due | **--** | -- |
| Total risk loans | **7,837** | 8,799 |
| Other property owned | **419** | 658 |
| Total risk assets | **$ 8,256** | $ 9,457 |
| Total risk loans as a percentage of total loans | **0.5%** | 0.5% |
| Nonaccrual loans as a percentage of total loans | **0.3%** | 0.4% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **49.8%** | 45.4% |
| Total delinquencies as a percentage of total loans | **0.3%** | 0.3% |

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2021, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

## Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent 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: | **March 31, 2022** | December 31, 2021 |
|---|---|---|
| Allowance as a percentage of: | | |
| Loans | **0.1%** | 0.1% |
| Nonaccrual loans | **44.0%** | 38.7% |
| Total risk loans | **30.2%** | 25.9% |

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2022.

## RESULTS OF OPERATIONS

**Profitability Information**

| (dollars in thousands) For the three months ended March 31 | **2022** | 2021 |
|---|---|---|
| Net income | **$ 7,107** | $ 7,721 |
| Return on average assets | **1.6%** | 1.8% |
| Return on average members' equity | **8.2%** | 9.4% |

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)<br>For the three months ended March 31 | 2022 | 2021 | Increase (decrease) in net income |
|---|---|---|---|
| Net interest income | $ **12,217** | $ 11,477 | $ **740** |
| Provision for credit losses | **228** | 287 | **59** |
| Non-interest income | **2,605** | 3,284 | **(679)** |
| Non-interest expense | **7,552** | 6,685 | **(867)** |
| (Benefit from) provision for income taxes | **(65)** | 68 | **133** |
| Net income | $ **7,107** | $ 7,721 | $ **(614)** |

## Non-Interest Income

The change in non-interest income was primarily due to fee income and patronage income.

**Fee Income:** The decrease in fee income was primarily due to fees collected from the SBA for originating Paycheck Protection Program (PPP) loans in 2021, which have been subsequently forgiven. The PPP has ceased with no new originations in 2022.

**Patronage Income:** We may receive patronage from AgriBank and other Farm Credit institutions. Patronage distributions from AgriBank and other Farm Credit institutions are declared solely at the discretion of each institution's Board of Directors. AgriBank may distribute patronage in the form of cash or stock. All other patronage from other Farm Credit institutions is typically distributed in cash.

**Patronage Income**

| (in thousands)<br>For the three months ended March 31 | 2022 | 2021 |
|---|---|---|
| Patronage from AgriBank | $ **1,531** | $ 1,706 |
| AgDirect partnership distribution | **83** | 75 |
| Other patronage | **122** | 97 |
| Total patronage income | $ **1,736** | $ 1,878 |

Patronage from AgriBank primarily includes wholesale patronage and pool program patronage.

## Non-Interest Expense

The change in non-interest expense was primarily related to salaries and benefit increases from merit increases and positions being filled. Also, in the first quarter of 2022, we recorded a non-recurring expense for the allocation of certain retirement benefit costs related to our participation in the CentRic Technology Collaboration. Finally, write-downs of acquired property occurred in 2022, contributing to higher non-interest expense than the prior year.

## 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 May 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 at March 31, 2022, or December 31, 2021.

Total members' equity increased $4.5 million from December 31, 2021, primarily due to net income for the period 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: | **March 31, 2022** | December 31, 2021 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk-adjusted: | | | | | |
| Common equity tier 1 ratio | **18.1%** | 18.8% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **18.1%** | 18.8% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | **18.3%** | 18.9% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **18.2%** | 18.8% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | **18.0%** | 18.6% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **17.6%** | 19.0% | 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.

## OTHER MATTERS

### Governance

The Board of Directors of Western Arkansas recently changed the number of elected directors on the board and revised the boundaries of director areas within the Association. During a meeting held on April 8, 2022, the Board voted unanimously to reduce the number of stockholder-elected director positions from twelve (12) to nine (9). Additionally, the Board reduced the number of director areas from six (6) to three (3) areas. The Board will continue to provide seats for two (2) outside directors, as required by FCA regulations.

## CERTIFICATION

The undersigned have reviewed the March 31, 2022, Quarterly Report of Farm Credit Services of Western Arkansas, 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.

Cody Jones
Chairperson of the Board
Farm Credit Services of Western Arkansas, ACA

Brandon Haberer
President and Chief Executive Officer
Farm Credit Services of Western Arkansas, ACA

Lori Schumacher
Senior Vice President of Finance and Chief Financial Officer
Farm Credit Services of Western Arkansas, ACA

May 9, 2022

# CONSOLIDATED STATEMENTS OF CONDITION

*Farm Credit Services of Western Arkansas, ACA*
*(in thousands)*
*(Unaudited)*

| As of: | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| Loans | **$ 1,707,514** | $ 1,659,308 |
| Allowance for loan losses | **2,367** | 2,276 |
| Net loans | **1,705,147** | 1,657,032 |
| Investment in AgriBank, FCB | **38,815** | 38,815 |
| Accrued interest receivable | **10,323** | 9,806 |
| Other assets | **25,855** | 27,093 |
| Total assets | **$ 1,780,140** | $ 1,732,746 |
| **LIABILITIES** | | |
| Note payable to AgriBank, FCB | **$ 1,412,145** | $ 1,360,997 |
| Accrued interest payable | **5,283** | 5,280 |
| Deferred tax liabilities, net | **753** | 621 |
| Patronage distribution payable | **2,550** | 11,500 |
| Other liabilities | **10,054** | 9,466 |
| Total liabilities | **1,430,785** | 1,387,864 |
| Contingencies and commitments (Note 3) | | |
| **MEMBERS' EQUITY** | | |
| Capital stock and participation certificates | **6,066** | 6,049 |
| Unallocated surplus | **343,289** | 338,833 |
| Total members' equity | **349,355** | 344,882 |
| Total liabilities and members' equity | **$ 1,780,140** | $ 1,732,746 |

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*Farm Credit Services of Western Arkansas, ACA*
*(in thousands)*
*(Unaudited)*

| | Three Months Ended | |
|---|---|---|
| *For the period ended March 31* | **2022** | 2021 |
| **Interest income** | **$ 17,500** | $ 16,923 |
| **Interest expense** | **5,283** | 5,446 |
| Net interest income | **12,217** | 11,477 |
| **Provision for credit losses** | **228** | 287 |
| Net interest income after provision for credit losses | **11,989** | 11,190 |
| **Non-interest income** | | |
| Patronage income | **1,736** | 1,878 |
| Financially related services income | **5** | 15 |
| Fee income | **664** | 1,378 |
| Other non-interest income | **200** | 13 |
| Total non-interest income | **2,605** | 3,284 |
| **Non-interest expense** | | |
| Salaries and employee benefits | **4,164** | 4,001 |
| Other operating expense | **3,147** | 2,644 |
| Other non-interest expense | **241** | 40 |
| Total non-interest expense | **7,552** | 6,685 |
| Income before income taxes | **7,042** | 7,789 |
| **(Benefit from) provision for income taxes** | **(65)** | 68 |
| Net income | **$ 7,107** | $ 7,721 |
| **Other comprehensive income** | | |
| Employee benefit plans activity | **$ --** | $ 70 |
| Total other comprehensive income | **--** | 70 |
| Comprehensive income | **$ 7,107** | $ 7,791 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*Farm Credit Services of Western Arkansas, ACA*
*(in thousands)*
*(Unaudited)*

| | Capital Stock and Participation Certificates | Unallocated Surplus | Accumulated Other Comprehensive Loss | Total Members' Equity |
|---|---|---|---|---|
| Balance at December 31, 2020 | $ 5,950 | $ 319,333 | $ (279) | $ 325,004 |
| Net income | -- | 7,721 | -- | 7,721 |
| Other comprehensive income | -- | -- | 70 | 70 |
| Unallocated surplus designated for patronage distributions | -- | (3,157) | -- | (3,157) |
| Capital stock and participation certificates issued | 211 | -- | -- | 211 |
| Capital stock and participation certificates retired | (193) | -- | -- | (193) |
| Balance at March 31, 2021 | $ 5,968 | $ 323,897 | $ (209) | $ 329,656 |
| Balance at December 31, 2021 | $ 6,049 | $ 338,833 | -- | $ 344,882 |
| Net income | **--** | **7,107** | **--** | **7,107** |
| Unallocated surplus designated for patronage distributions | **--** | **(2,651)** | **--** | **(2,651)** |
| Capital stock and participation certificates issued | **195** | **--** | **--** | **195** |
| Capital stock and participation certificates retired | **(178)** | **--** | **--** | **(178)** |
| **Balance at March 31, 2022** | **$ 6,066** | **$ 343,289** | **$ --** | **$ 349,355** |

*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 three months ended March 31, 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 (2021 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Services of Western Arkansas, ACA and its subsidiaries Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, 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. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. | 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. Processes and internal controls related to the model and the estimation of credit losses for loans are currently being designed. We are in the process of drafting disclosures and accounting policies. The extent of the impact on our financial statements will depend on economic conditions, forecasts and the composition of our loan and investment portfolios 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: | **March 31, 2022** | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| | | Amount | % | | Amount | % |
| Real estate mortgage | **$** | **1,129,013** | **66.1%** | $ | 1,118,058 | 67.4% |
| Production and intermediate-term | | **190,005** | **11.1%** | | 192,025 | 11.6% |
| Agribusiness | | **270,281** | **15.8%** | | 231,486 | 14.0% |
| Other | | **118,215** | **7.0%** | | 117,739 | 7.0% |
| Total | **$** | **1,707,514** | **100.0%** | $ | 1,659,308 | 100.0% |

The other category is primarily composed of rural infrastructure, rural residential real estate, and agricultural export finance related loans.

### Delinquency

**Aging Analysis of Loans**

| (in thousands) **As of 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 | Total |
|---|---|---|---|---|---|
| Real estate mortgage | **$ 3,255** | **$ 1,015** | **$ 4,270** | **$ 1,132,088** | **$ 1,136,358** |
| Production and intermediate-term | **751** | **434** | **1,185** | **191,102** | **192,287** |
| Agribusiness | **--** | **--** | **--** | **270,839** | **270,839** |
| Other | **--** | **159** | **159** | **118,194** | **118,353** |
| Total | **$ 4,006** | **$ 1,608** | **$ 5,614** | **$ 1,712,223** | **$ 1,717,837** |

| 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 | $ 2,883 | $ 1,356 | $ 4,239 | $ 1,120,685 | $ 1,124,924 |
| Production and intermediate-term | 182 | 692 | 874 | 193,466 | 194,340 |
| Agribusiness | -- | -- | -- | 231,992 | 231,992 |
| Other | 6 | -- | 6 | 117,852 | 117,858 |
| Total | $ 3,071 | $ 2,048 | $ 5,119 | $ 1,663,995 | $ 1,669,114 |

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at March 31, 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: | **March 31, 2022** | December 31, 2021 |
|---|---|---|
| Volume with specific allowance | **$ 800** | $ 824 |
| Volume without specific allowance | **7,037** | 7,975 |
| Total risk loans | **$ 7,837** | $ 8,799 |
| Total specific allowance | **$ 262** | $ 256 |
| For the three months ended March 31 | **2022** | 2021 |
| Income on accrual risk loans | **$ 29** | $ 33 |
| Income on nonaccrual loans | **255** | 97 |
| Total income on risk loans | **$ 284** | $ 130 |
| Average risk loans | **$ 8,239** | $ 9,835 |

Note: Accruing loans include accrued interest receivable.

We had no commitments to lend additional money to borrowers whose loans were classified as risk loans at March 31, 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 three months ended March 31, 2022, or 2021. In addition, there were no TDRs that defaulted during the three months ended March 31, 2022, or 2021, in which the modification was within twelve months of the respective reporting period.

**TDRs Outstanding**

| (in thousands)<br>As of: | | **March 31, 2022** | | December 31, 2021 |
|---|---|---|---|---|
| Accrual status: | | | | |
| Real estate mortgage | **$** | **788** | $ | 789 |
| Production and intermediate-term | | **--** | | 412 |
| Agribusiness | | **1,664** | | 1,713 |
| Total TDRs in accrual status | **$** | **2,452** | $ | 2,914 |
| Nonaccrual status: | | | | |
| Real estate mortgage | **$** | **244** | $ | 284 |
| Production and intermediate-term | | **475** | | 475 |
| Agribusiness | | **--** | | -- |
| Total TDRs in nonaccrual status | **$** | **719** | $ | 759 |
| Total TDRs: | | | | |
| Real estate mortgage | **$** | **1,032** | $ | 1,073 |
| Production and intermediate-term | | **475** | | 887 |
| Agribusiness | | **1,664** | | 1,713 |
| Total TDRs | **$** | **3,171** | $ | 3,673 |

There were no commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2022.

## Allowance for Loan Losses

**Changes in Allowance for Loan Losses**

| (in thousands)<br>Three months ended March 31 | | **2022** | | 2021 |
|---|---|---|---|---|
| Balance at beginning of period | **$** | **2,276** | $ | 2,251 |
| Provision for loan losses | | **192** | | 294 |
| Loan recoveries | | **1** | | 25 |
| Loan charge-offs | | **(102)** | | (14) |
| Balance at end of period | **$** | **2,367** | $ | 2,556 |

The "Provision for credit losses" in the Consolidated Statements of Comprehensive Income includes a provision for loan losses as presented in the previous chart, as well as a provision for (reversal of) credit losses on unfunded commitments. The accrued credit losses on unfunded commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition. Typically, accrued credit losses are relieved and replaced with an allowance for loan loss as the related commitments are funded.

**Credit Loss Information on Unfunded Commitments**

| (in thousands)<br>For the three months ended March 31 | | **2022** | | 2021 |
|---|---|---|---|---|
| Provision for (reversal of) credit losses | **$** | **36** | $ | (7) |
| As of: | | **March 31, 2022** | | December 31, 2021 |
| Accrued credit losses | **$** | **69** | $ | 33 |

## 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 at March 31, 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 March 31, 2022** | Fair Value Measurement Using | | | Total Fair |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value |
| Impaired loans | **$ --** | **$ --** | **$ 565** | **$ 565** |
| Other property owned | **--** | **--** | **482** | **482** |

| As of December 31, 2021 | Fair Value Measurement Using | | | Total Fair |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value |
| Impaired loans | $ -- | $ -- | $ 596 | $ 596 |
| Other property owned | -- | -- | 757 | 757 |

### 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.

**Other Property Owned:** Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process 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 property and other matters, they are classified as Level 3.

## NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 9, 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.