

Management's Discussion and Analysis

The following discussion summarizes the financial position and results of operations of American AgCredit, ACA and its subsidiaries (collectively "the Association") as of the first quarter of 2022. This commentary should be read with the accompanying consolidated financial statements and the related notes appearing in this report along with our 2021 Annual Report. The discussion includes significant known trends, commitments, events, or uncertainties that have impacted or are reasonably likely to impact our financial condition and results of operations. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of our Board of Directors.

Our annual and quarterly reports to shareholders are available on our website, www.agloan.com, or can be obtained free of charge by calling our corporate headquarters at (707) 545-1200. Additionally, the financial condition and results of operations of CoBank, ACB (CoBank), our funding bank, materially affect the risk associated with shareholder investments in American AgCredit. Shareholders of American AgCredit may obtain copies of CoBank's Quarterly or Annual Report to Shareholders free of charge by accessing CoBank's website, www.CoBank.com, calling (800) 542-8072, or mailing CoBank at 6340 S. Fiddlers Green Circle, Greenwood Village, CO 80111.

As a cooperative, the voting stock of American AgCredit is owned by the members we serve. Our territory extends across a diverse agricultural region that includes parts of California, Kansas, Oklahoma, Colorado, and New Mexico, as well as the states of Nevada and Hawaii.

Forward Looking Statements

Any forward-looking statements in this 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.

Economic Overview

The United States economy, including the agricultural sector, is entering a period of uncertainty and potential volatility in the wake of a rising interest rate environment, the effects of conflict in the Ukraine, persistent inflation, and continued supply chain disruptions. Although the unemployment rate was 3.6% in March 2022, inflation as measured by the consumer price index (CPI) remained at a 40 year high, ending at 8.5% on an annualized basis as of March 2022. The primary drivers to the CPI increase in March were from energy and food costs. The Federal Open Market Committee (FOMC) began raising the federal funds rate in March, initially by 0.25% after lowering it to near zero in response to the COVID-19 pandemic in March 2020. While the FOMC has historically raised or lowered rates in 0.25% increments depending upon the macroeconomic response to changing rates, in May 2022 it raised rates by a larger 0.5% increment. Total rate increases to-date in 2022 amount to 0.75%. The U.S. treasury yield curve has inverted at times with respect to some maturities, meaning the yield of some longer duration bonds have been lower than some with a shorter duration. Such a yield curve inversion has been identified as a potential leading indicator of economic slowness. The U.S. economy shrank at a 1.4% annual rate in the first quarter of 2022, which is a reversal from the 6.9% annual growth rate in the fourth quarter of 2021. The drop can be partially attributed to U.S. imports exceeding exports and a slower pace of inventory investment by businesses. Major U.S. stock indexes have experienced year-to-date losses, with the benchmark S&P 500 down near 5%.

Due to the conflict in Ukraine, many global economic powers have embargoed or otherwise restricted the Russian economy, leading to sharp declines in supplies of certain commodities and disrupted the global supply of food and energy. The supply shock from the loss of Ukrainian and Russian exports has raised the prices of products containing or related to wheat, corn, and vegetable oils (such as soybeans, sunflower, and canola). As Russia is also a significant oil and natural gas exporting nation, rising energy prices have further strained input costs, especially for petroleum-based fertilizer products.

Drought in the United States remains concerning. Although December 2021 brought abnormally large amounts of precipitation to the western United States, 2022 has been extremely dry to date. All of California and Nevada are in drought conditions, with most of Colorado and western Kansas in drought conditions as well. Persistent drought could lead to increased feed costs in the beef and dairy industry as well as lower yields in wine, field crops, and tree fruit and nuts.

Management's Discussion and Analysis

Commodity Review and Outlook

The Association's commodity portfolio remains well-diversified. Wine grapes and wine and tree fruits and nuts lead our commodity portfolio at 16.3% and 13.9%, respectively, followed by field crops at 13.7%, dairies and dairy products at 11.1%, beef at 10.4%, and forest products at 7.8%. The top six commodities make up 73.2% of the total portfolio with the remaining 26.8% spread over sixteen additional categories, including an "Other" category. The bulk of the Association's wine portfolio continues to be centered in the super- and ultra-premium segments of the wine market. Tree fruits and nuts consists primarily of almonds, walnuts and orchards in California's Central Valley and Hawaii. Field crops consist primarily of wheat, corn, soybeans, alfalfa, sorghum, and other grains.

Following is a summary of economic conditions among the Association's significant commodities:

- **Wine grapes and wine:** Demand for wine grapes has remained elevated and wine sales remain strong. Direct-to-consumer sales continue to gain momentum and are expected to grow. Total tons of crushed wine grapes in 2021 was above very low 2020 levels but below both recent averages and historical trends. As a result, overall wine inventory has declined due to back-to-back light grape harvests. The light wine inventory has created strong demand for wine grapes and supported substantial grape price increases. For example, the average 2021 red and white variety prices increased approximately 32% and 20% from 2020, respectively. In 2021, the total value of crushed wine grapes increased 27% from the previous year and 9% above the 2010-2019 average. Input prices overall have surged, including the cost of labor, water, glass, and barrels while vineyard land values continue to remain stable. Higher labor and construction costs may slow the expansion of wineries, tasting rooms, and the development of new vineyard acres. Wine sales are expected to continue modestly growing, and an expected larger 2022 crush may help backfill inventories.
- **Tree fruits and nuts:** Tree fruit and nut operations managed through a difficult 2021 growing season due to weather conditions, shipping struggles, and generally higher input costs which are expected to persist throughout 2022. Demand for tree fruits and nuts should remain strong as per capita consumption remains elevated. Weather conditions through early March have been unfavorable for tree nut producers and may challenge production in 2022. Supply chain logistics remain a stiff challenge to sustained growth in export markets. Trucking, rail, deep sea freight, and air freight prices are each at record heights. As the cost of transportation and other inputs have risen at a brisker pace than crop prices, grower margins will be significantly pressured. Despite an expected decline in almond yields, prices are expected to be modestly lower than the 2020 crop average due to relatively high global ending stocks, which remain at a near record level. Because most of the almond crop is exported, strong global stocks and supply chain issues are expected to weigh on the final 2021 crop price. The general expectation is that the 2022 almond crop will be smaller relative to 2021. Walnut production also has declined due to drought and above normal temperatures. While domestic walnut consumption increased, global consumption declined. Walnut prices overall are expected to be similar to year ago levels.
- **Field Crops:** The general sentiment in the field crop industry is guarded optimism. Prices for nearly all field crops have significantly increased due to a supply shock caused by the Russian-Ukraine conflict, drought conditions in South America, and overall strong global demand. Domestic production is expected to capture additional share of global exports previously produced by Russian and Ukraine. Drought concerns have weighed on producers and yields could drop off depending on spring precipitation. Corn prices have risen sharply due to an expectation of stronger exports. Domestic demand for the current crop has also improved and consumption has increased 3% from the previous year according to the most recent USDA estimate. Wheat prices have surged due to the Russia-Ukraine conflict, and drought concerns in the western United States and Canada have cast concerns on 2022 production. Wheat stocks-to-use ratios are significantly lower than the previous year. Hay prices have also increased due to drought concerns. Along with other field crops, soybean prices have appreciated due to global supply concerns in the vegetable oil market and drought in South America. The USDA forecasts a slight decline in consumption of the current soybean crop, but the stocks-to-use ratio remains close to the previous year.
- **Dairy:** Profit margins in the dairy industry were mostly positive through the first quarter of 2022. Milk prices have strengthened due to strong demand and slightly less supply. Input costs remain elevated and have pressured profit margins and management strategies, but the industry appears cautiously optimistic about near-term profit margins. Growth in milk supply outpaced the growth in demand for much of 2020 and portions of 2021, resulting in generally subdued milk prices. However, milk production

Management's Discussion and Analysis

has somewhat slowed in the past several months, which has allowed supply and demand to come into balance. The USDA currently forecasts total milk use to increase slightly in 2022. Total dairy exports in 2022 are forecast at 10.9 billion pounds, the fourth highest on record. As of January 1, 2022, the U.S. dairy herd was about 65,000 head smaller than a year ago, or about a 0.7% decline. Milk prices in January were around 45% higher than the previous year for both California and Colorado-Kansas. The USDA also forecasts the average 2022 milk price to be slightly above \$25 per hundredweight, 34% above the average 2021 price. The current futures market also indicates strong prices for Class III and IV milk in 2022. Feed prices have been fueled by drought in the U.S. and South America, strong demand for commodities, a supply shock from the Russia-Ukraine conflict, and general inflation. High feed, water, and labor costs pose significant challenges to profit margins in the medium-to-long term outlook.

- Beef:** Demand for beef has remained strong in both the U.S and abroad. The current supply for beef has also remained strong, although recent herd contraction has cast some doubt on the availability of future supply. Cattle prices have strengthened, helping to somewhat offset inflation in input prices. Beef exports have exceeded recent levels. The total value of beef exported in 2021 was more than 33% above the 2020 level on an inflation-adjusted basis. Demand for beef has outpaced supply and retail beef prices have generally appreciated as consumers have largely been willing to pay for increased prices. Conditions in the cow-calf sector remain cautiously optimistic as elevated calf prices have improved sentiment, but drought and increased feed costs could pose a headwind to the industry. The tight supply of available, good quality cows has added to price pressures as the U.S. beef herd has significantly contracted in the last several years due to drought and other market pressures. If drought conditions persist, the cost of grazing out calves will increase and pose a headwind to profits.
- Forest products** The sentiment in the forest products industry remains generally optimistic. Profit margins were generally positive in 2021, particularly for those with manufacturing operations, and most expect positive profit margins throughout 2022. Demand for forest products remains elevated, and prices remain well above 5-year averages. The industry faces headwinds from supply chain logistics, transportation costs, and rising mortgage interest rates. Prices for construction materials and total construction spending in the U.S. have increased. A significant portion of the growth has been attributed to repair, remodeling, industrial, and other nonresidential uses. The available supply of lumber has been somewhat constrained due to strong demand and supply chain disruptions. Although the price of framing lumber is expected to decrease from 2021 record levels, prices are expected to remain well above the 5-year average. Due to strong cash flows, some forest products companies may embark on acquisition and capital project activities. Inflation in wages and transportation pose some risks to the 2022 outlook. Mortgage rates have risen through 2022 and reached 5% for a 30-year fixed-rate mortgage in April 2022. To the extent that construction activity is financed with credit, continued interest rate increases would increase the all-in cost of construction and could reduce future demand for certain forest products.

Loan Portfolio

Total loan and lease volume was \$16.2 billion at March 31, 2022, an increase of \$308 million from \$15.9 billion at December 31, 2021. The increase was caused both by draws on existing facilities and new originations, partially offset by anticipated seasonal loan repayments. On a year-over-year basis, loan volume increased by \$1.9 billion when compared to March 31, 2021, resulting in a growth rate of 13.1%. Credit quality remains strong and has slightly increased to 97.9% at March 31, 2022 from 97.8% at December 31, 2021. Credit quality is a measurement of loan volume classified as either "Acceptable" or "Other Assets Especially Mentioned" divided by total loan volume under the Farm Credit System 14-point probability of default rating scale.

In addition to the \$16.2 billion of loan and lease volume reported on our balance sheet, we serviced an additional \$5.4 billion of loan volume for other institutions as of March 31, 2022.

Nonearning Assets

Nonaccrual loan volume increased by \$15.2 million to \$81.6 million at March 31, 2021, compared to \$66.4 million at December 31, 2021. The change in nonaccrual loan volume was primarily due to transfers to nonaccrual status and disbursements on nonaccrual loans of \$24.7 million, offset by \$4.6 million year-to-date repayments on nonaccrual loans, charge-offs of nonaccrual loans of \$323 thousand, and loans

Management's Discussion and Analysis

reinstated to accrual status of \$4.6 million. Nonaccrual loan volume represented 0.50% of total loan volume at the end of March 31, 2022, compared to 0.41% at March 31, 2021 and 0.42% at December 31, 2021.

Allowance for Credit Losses

The allowance for credit losses is composed of the allowance for loan losses (ALL) and the reserve for unfunded commitments. The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. The appropriate level of allowance for loan losses is determined based on periodic evaluation of factors such as loan loss history, portfolio quality, estimated collateral values, and current economic and environmental conditions. Total allowance for credit losses was \$36.1 million at March 31, 2022, which included a \$32.6 million allowance for loan losses and a \$3.5 million reserve for unfunded commitments.

Investment in CoBank

In June 2021, the CoBank Board of Directors approved changes to certain capital plans and patronage programs. CoBank increased the target patronage for association direct note balances to 45 basis points, from 39 basis points effective January 1, 2021. In addition, the loan base period used for determining the required stock investment in CoBank for affiliated associations was increased to the five-year trailing average from a one-year average. These changes were effective beginning in 2021 for patronage distributions and stock retirements expected to be made in March 2022. As a result of the new capital plans, in March 2022 CoBank retired \$21.2 million of the Association's stock investment.

Financial Condition and Results of Operations

Net income for the three months ended March 31, 2022 was \$99.2 million compared to \$83.0 million for the same period last year, an increase of \$16.1 million. The change in net income was primarily due to the following reasons:

- Net interest income increased by \$11.3 million year-over-year due to growth in accrual loan volume, offset by a slightly lower net interest margin. The Association's weighted average interest rate on interest-bearing liabilities excluding the subordinated debt offering was 0.81% and 0.68% as of March 31, 2022 and 2021, respectively. Including the subordinated debt offering, the weighted average rate was 0.85% as of March 31, 2022.
- Provision for credit losses decreased by \$3.5 million year-over-year. The decrease was caused by a \$5.7 million reversal for credit losses recorded through March 31, 2022 primarily as a result of changes in assumptions in the provision estimate in March 2022.
- Non-interest income increased by \$5.9 million year-over-year. The increase was primarily due to a \$6.9 million increase in patronage income from Farm Credit Institutions. This was partially offset by PPP loan origination fees received in 2021, which are not applicable for 2022.
- FCSIC insurance, a component of noninterest operating expense, increased by \$520 thousand when compared to March 2021. While premium rates remained the same, the Association's direct note with CoBank continues to increase, resulting in higher FCSIC insurance expense.
- Overall, non-interest operating expenses increase by \$4.6 million compared to the same period last year, primarily caused by increases in salaries and benefits due to higher headcount in 2022.

Management's Discussion and Analysis

The major components of change in net income are summarized as follows:

	For the Three Months Ended		Increase
	March 31, 2022	March 31, 2021	(Decrease) in Net Income
Net interest income	\$116,695	\$105,349	\$11,346
Reversal of credit losses	5,703	2,234	3,469
Patronage income	27,747	20,870	6,877
Other income, net	4,764	5,706	(942)
Non-interest expenses	(55,751)	(51,129)	(4,622)
Provision for income taxes	-	-	-
Net income	\$99,158	\$83,030	\$16,128

The following table shows the Association's year-to-date annualized return on average assets, return on equity, and net interest margin.

	March 31,	
	2022	2021
Return on average assets	2.34%	2.21%
Return on common equity	16.49%	14.89%
Return on total equity	14.66%	13.77%
Net interest margin	2.91%	2.97%

Liquidity and Funding

Liquidity is necessary to meet our financial obligations, such as paying our note with CoBank, funding loans and other commitments, and funding operations in a low-cost manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reductions, and liquidate nonearning assets. Our direct loan with CoBank, cash on hand, and borrower loan repayments provide adequate liquidity to fund our ongoing operations and other commitments. The Association has also received funding from preferred stock, subordinated debt, and funds held accounts.

Shareholders' Equity

The Association's capital position remains strong. Total shareholders' equity was \$2.760 billion at the end of the first quarter, an increase of \$96.4 million from \$2.663 billion at December 31, 2021. The increase in capital is primarily the result of the Association's strong year-to-date net income. The Association was in compliance with all capital ratio requirements at March 31, 2022. The Association's strong earnings and capital position enable us to effectively serve our mission and our customers and support our ability to maintain our cash patronage distribution program.

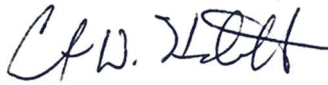
Management's Discussion and Analysis

Certification

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



Gary Harshberger
Chairman



Curt Hudnutt
Chief Executive Officer



Vern Zander
Chief Financial Officer

May 10, 2022

Consolidated Statements of Condition (dollars in thousands)

	March 31, 2022	December 31, 2021
	<i>(Unaudited)</i>	<i>(Audited)</i>
ASSETS		
Loans	\$16,242,357	\$15,934,730
Less: allowance for loan losses	(32,639)	(37,515)
Net loans	16,209,718	15,897,215
Cash	-	7,946
Accrued interest receivable	103,002	119,531
Investment in CoBank	456,667	475,173
Investment in AgDirect	24,541	23,090
Premises and equipment, net	113,973	115,113
Other property owned	4,160	4,160
Other assets	157,650	326,154
Total assets	\$17,069,711	\$16,968,382
LIABILITIES		
Notes payable to CoBank	\$13,462,907	\$13,571,210
Subordinated debt	197,633	197,591
Funds Held accounts	396,682	211,925
Accrued interest payable	26,159	22,844
Cash patronage and preferred stock dividends payable	71,395	162,855
Reserve for unfunded commitments	3,491	4,192
Other liabilities	151,633	134,310
Total liabilities	14,309,900	14,304,927
SHAREHOLDERS' EQUITY		
Preferred stock	300,000	300,000
Common stock and participation certificates	10,579	10,495
Additional paid-in capital	677,110	677,110
Unallocated retained surplus	1,790,191	1,694,971
Accumulated other comprehensive loss	(18,069)	(19,121)
Total shareholders' equity	2,759,811	2,663,455
Total liabilities and shareholders' equity	\$17,069,711	\$16,968,382

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

Consolidated Statements of Comprehensive Income *(dollars in thousands)*

<i>(Unaudited)</i>	For the Three Months Ended March 31,	
	2022	2021
INTEREST INCOME		
Loans	\$151,060	\$134,380
Total interest income	151,060	134,380
INTEREST EXPENSE		
Notes payable CoBank	32,030	28,747
Subordinated notes	1,729	-
Funds Held and other interest	606	284
Total interest expense	34,365	29,031
Net interest income	116,695	105,349
Reversal of credit losses	5,703	2,234
Net interest income after reversal of credit losses	122,398	107,583
NON-INTEREST INCOME		
Patronage income from CoBank	19,337	14,638
Patronage income from other Farm Credit institutions	7,882	5,825
Patronage income from AgDirect	528	407
Loan origination fees	2,174	3,595
Servicing fees and late charges	504	326
Financially related services	791	910
Miscellaneous	1,295	875
Total non-interest income	32,511	26,576
NON-INTEREST EXPENSES		
Salaries and benefits	35,907	31,422
Occupancy and equipment expense	2,614	2,590
Insurance fund premiums	5,183	4,663
Supervisory and examination expense	770	719
Other operating expenses	11,277	11,735
Total non-interest expenses	55,751	51,129
Income before income taxes	99,158	83,030
Provision for income taxes	-	-
Net income	\$99,158	\$83,030
COMPREHENSIVE INCOME		
Actuarial gain in retirement obligation	1,052	1,166
Total comprehensive income	\$100,210	\$84,196

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

Consolidated Statements of Changes in Shareholders' Equity *(dollars in thousands)*

For the Three Months Ended March 31, 2022 and 2021

<i>(Unaudited)</i>	<u>Common Stock and Participation Certificates</u>	<u>Preferred Stock</u>	<u>Additional Paid-in Capital</u>	<u>Unallocated Retained Surplus</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Shareholders' Equity</u>
Balance at December 31, 2020	\$10,212	\$175,623	\$683,656	\$1,520,252	\$(20,588)	\$2,369,155
Comprehensive income				83,030	1,166	84,196
Stock/participation certificates issued	321	49,681				50,002
Stock/participation certificates retired	(250)	(225,575)				(225,825)
Preferred stock dividends paid		271				271
Preferred stock dividends accrued				(269)		(269)
Balance at March 31, 2021	\$10,283	\$0	\$683,656	\$1,603,013	\$(19,422)	\$2,277,530
Balance at December 31, 2021	\$10,495	\$300,000	\$677,110	\$1,694,971	\$(19,121)	\$2,663,455
Comprehensive income				99,158	1,052	100,210
Stock/participation certificates issued	288					288
Stock/participation certificates retired	(204)					(204)
Preferred stock dividends				(3,938)		(3,938)
Balance at March 31, 2022	\$10,579	\$300,000	\$677,110	\$1,790,191	\$(18,069)	\$2,759,811

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

Notes to the Consolidated Financial Statements *(dollars in thousands, except as noted.)*

(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of American AgCredit, ACA (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 (2021 Annual Report). The financial statements were prepared under the oversight of the audit committee of the board of directors.

The accompanying unaudited first quarter 2022 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.

In the opinion of management, this unaudited financial information 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. 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.

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. 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 October 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain entities. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those entities qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association is in the process of developing the Current Expected Credit Loss models and processes. While management continues to evaluate the impact of adoption, the expectation is that the amount of the increase or decrease, if any, in the allowance for loan losses will be impacted by the composition of our portfolios and credit quality at the adoption date as well as economic conditions and forecasts at that time.

Refer to Note 2 in our 2021 Annual Report for additional information on other accounting standards that have been issued but are not yet effective. The Association is evaluating the impact of adoption of these standards on its financial condition and results of operations.

Notes to the Consolidated Financial Statements *(continued)***NOTE 2 – LOANS AND ALLOWANCE FOR LOAN LOSSES**

Components of loans in the Consolidated Statements of Condition are as follows:

	<u>March 31, 2022</u>		<u>December 31, 2021</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Real estate mortgage	\$9,137,496	56.3%	\$8,889,724	55.8%
Production and intermediate-term	3,244,766	20.0%	3,514,590	22.0%
Agribusiness	3,285,140	20.1%	2,960,834	18.6%
Rural infrastructure	531,755	3.3%	526,303	3.3%
Agricultural export finance	41,556	0.3%	41,554	0.3%
Rural residential real estate	1,644	0.0%	1,725	0.0%
Total loans	<u>\$16,242,357</u>	<u>100.0%</u>	<u>\$15,934,730</u>	<u>100.0%</u>

PARTICIPATION INTERESTS

The Association, in the normal course of business, purchases and sells participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. All loans sold to other parties are sold without recourse.

The following table presents information regarding participations purchased and sold at March 31, 2022. The Association had no participations purchased from or sold to non-Farm Credit institutions at March 31, 2022.

	<u>Other Farm Credit Institutions</u>	
	<u>Participations</u>	
	<u>Purchased</u>	<u>Sold</u>
Real estate mortgage	\$549,098	\$1,858,086
Production and intermediate-term	792,149	887,155
Agribusiness	1,930,516	2,545,938
Rural infrastructure	500,377	60,736
Agricultural export finance	41,556	-
Total	<u>\$3,813,696</u>	<u>\$5,351,915</u>

Notes to the Consolidated Financial Statements *(continued)*

CREDIT QUALITY

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, and
- **Loss:** Assets are considered uncollectible.

The determination of the allowance for loan losses is based on estimates that are susceptible to changes in the economic environment and market conditions, and is based on the Association's past loss experience, known and inherent risks in the portfolio, the estimated value of the underlying collateral, and current economic conditions. Management believes that as of March 31, 2022, the allowance for loan losses is adequate based on information currently available.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type:

	As of March 31, 2022						Total Amount
	Acceptable		OAEM		Substandard/Doubtful		
	Amount	%	Amount	%	Amount	%	
Real estate mortgage	\$8,858,678	96.2%	\$181,726	2.0%	\$169,849	1.8%	\$9,210,252
Production and intermediate-term	3,063,898	93.8%	100,009	3.1%	101,013	3.1%	3,264,920
Agribusiness	3,205,522	97.3%	13,639	0.4%	75,570	2.3%	3,294,731
Rural infrastructure	532,141	100.0%	-	0.0%	-	0.0%	532,141
Rural residential real estate	1,572	95.2%	-	0.0%	80	4.8%	1,652
Agricultural export finance	41,663	100.0%	-	0.0%	-	0.0%	41,663
Total	\$15,703,473	96.1%	\$295,374	1.8%	\$346,512	2.1%	\$16,345,359

	As of December 31, 2021						Total Amount
	Acceptable		OAEM		Substandard/Doubtful		
	Amount	%	Amount	%	Amount	%	
Real estate mortgage	\$8,649,729	96.3%	\$148,024	1.7%	\$180,361	2.0%	\$8,978,114
Production and intermediate-term	3,315,972	93.8%	114,006	3.2%	106,289	3.0%	3,536,267
Agribusiness	2,886,697	97.2%	15,597	0.5%	67,446	2.3%	2,969,740
Rural infrastructure	526,566	100.0%	-	0.0%	-	0.0%	526,566
Rural residential real estate	1,632	94.3%	-	0.0%	99	5.7%	1,731
Agricultural export finance	41,843	100.0%	-	0.0%	-	0.0%	41,843
Total	\$15,422,439	96.1%	\$277,627	1.7%	\$354,195	2.2%	\$16,054,261

Notes to the Consolidated Financial Statements *(continued)*

IMPAIRED ASSETS

Impaired assets (including related accrued interest) are as follows:

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
Nonaccrual loans:		
Real estate mortgage	\$44,181	\$39,126
Production and intermediate-term	23,011	13,913
Agribusiness	14,348	13,298
Rural residential real estate	80	99
Total nonaccrual loans	81,620	66,436
Accruing restructured loans:		
Real estate mortgage	11,058	9,577
Production and intermediate-term	16	16
Total accruing restructured loans	11,074	9,593
Accruing loans > 90 days past due:		
Real estate mortgage	-	658
Total accruing loans > 90 days past due	-	658
Total impaired loans	92,694	76,687
Other property owned	4,160	4,160
Total impaired assets	\$96,854	\$80,847

Additional impaired loan information is as follows:

	<u>At March 31, 2022</u>			<u>For the Three Months Ended March 31, 2022</u>	
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Impaired Loans</u>	<u>Interest Income Recognized</u>
Impaired loans:					
with a related allowance for credit losses	\$4,525	\$4,850	\$2,809	\$3,975	\$4
with no related allowance for credit losses	88,169	112,366	-	73,287	500
Total	\$92,694	\$117,216	\$2,809	\$77,262	\$504

	<u>At March 31, 2021</u>			<u>For the Three Months Ended March 31, 2021</u>	
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Impaired Loans</u>	<u>Interest Income Recognized</u>
Impaired loans:					
with a related allowance for credit losses	\$4,238	\$4,293	\$2,255	\$2,551	\$0
with no related allowance for credit losses	65,465	87,459	-	57,821	1,122
Total	\$69,703	\$91,752	\$2,255	\$60,372	\$1,122

Notes to the Consolidated Financial Statements *(continued)*

DELINQUENCY

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

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 Loans
Real estate mortgage	\$13,242	\$6,524	\$19,766	\$9,190,486	\$9,210,252
Production and intermediate-term	3,297	3,861	7,158	3,257,762	3,264,920
Agribusiness	1,153	-	1,153	3,293,578	3,294,731
Rural infrastructure	-	-	-	532,141	532,141
Rural residential real estate	80	-	80	1,572	1,652
Agricultural export finance	-	-	-	41,663	41,663
Total	\$17,772	\$10,385	\$28,157	\$16,317,202	\$16,345,359

December 31, 2021	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans
Real estate mortgage	\$12,999	\$8,784	\$21,783	\$8,956,331	\$8,978,114
Production and intermediate-term	5,524	2,937	8,461	3,527,806	3,536,267
Agribusiness	50	-	50	2,969,690	2,969,740
Rural infrastructure	-	-	-	526,566	526,566
Rural residential real estate	1	17	18	1,713	1,731
Agricultural export finance	-	-	-	41,843	41,843
Total	\$18,574	\$11,738	\$30,312	\$16,023,949	\$16,054,261

Notes to the Consolidated Financial Statements *(continued)*

TROUBLED DEBT RESTRUCTURINGS

A restructuring of debt constitutes a troubled debt restructuring (TDR) if the creditor for economic reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

The Association had no new TDRs during the first three months of 2022 and 2021.

In the allowance for loan loss analysis, TDR loans are individually evaluated, and a specific allowance is established based on the likelihood the current events will result in an anticipated loss on the individual loans.

The following table provides information on outstanding principal balance of loans restructured in TDR at period-end. These loans are included as impaired loans in the impaired loan table at March 31, 2022:

	TDRs in Accrual Status		TDRs in Nonaccrual Status		Total TDRs	
	Mar. 31, 2022	Dec. 31, 2021	Mar. 31, 2022	Dec. 31, 2021	Mar. 31, 2022	Dec. 31, 2021
Real estate mortgage	\$11,041	\$9,539	\$586	\$2,403	\$11,627	\$11,942
Production and intermediate-term	16	15	1,078	1,094	1,094	1,109
Total	\$11,057	\$9,554	\$1,664	\$3,497	\$12,721	\$13,051

At March 31, 2022, the Association had no additional commitments to lend to borrowers whose loans have been modified in TDRs.

ALLOWANCE FOR LOAN LOSSES

A summary of changes in the allowance for loan losses and period-end recorded investment in loans is as follows:

	Allowance for Loan Losses			Recorded Investments in Loans Outstanding		
	Balance at Mar. 31, 2022	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Balance at Mar. 31, 2022	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	\$8,979	\$37	\$8,942	\$9,210,252	\$55,239	\$9,155,013
Production and intermediate-term	12,487	821	11,666	3,264,920	23,027	3,241,893
Agribusiness	10,682	1,951	8,731	3,294,731	14,348	3,280,383
Rural infrastructure	415	-	415	532,141	-	532,141
Rural residential real estate	0	-	0	1,652	80	1,572
Agricultural export finance	76	-	76	41,663	-	41,663
Total	\$32,639	\$2,809	\$29,830	\$16,345,359	\$92,694	\$16,252,665

Notes to the Consolidated Financial Statements *(continued)*

	Allowance for Loan Losses			Recorded Investments in Loans Outstanding		
	Balance at Dec. 31, 2021	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Balance at Dec. 31, 2021	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	\$11,390	\$823	\$10,567	\$8,978,114	\$49,360	\$8,928,754
Production and intermediate-term	15,955	455	15,500	3,536,267	13,929	3,522,338
Agribusiness	9,543	705	8,838	2,969,740	13,298	2,956,442
Rural infrastructure	526	-	526	526,566	-	526,566
Rural residential real estate	1	-	1	1,731	99	1,632
Agricultural export finance	100	-	100	41,843	-	41,843
Total	\$37,515	\$1,983	\$35,532	\$16,054,261	\$76,686	\$15,977,575

A summary of the changes in the Allowance for Loan Losses is as follows:

	March 31,	
	2022	2021
Allowance for Loan Losses		
Balance at beginning of year	\$37,515	\$33,211
Charge-offs	(323)	(1,233)
Recoveries	449	536
Reversal of loan losses	(5,002)	(1,607)
Balance at end of quarter	\$32,639	\$30,907

A summary of the changes in the Reserve for Unfunded Commitments is as follows:

	March 31,	
	2022	2021
Reserve for Unfunded Commitments		
Balance at beginning of year	\$4,192	\$4,482
Reversal of unfunded commitments	(701)	(627)
Balance at end of quarter	\$3,491	\$3,855

NOTE 3 – LEASES

The balance sheet effect of operating leases for office space, and finance leases for vehicles, are included in premises and equipment and other liabilities on the balance sheet. Right-of-use assets represent the Association's right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease.

Notes to the Consolidated Financial Statements (continued)

Future minimum lease payments under non-cancellable leases as of March 31, 2022 were as follows:

	Operating Leases	Finance Leases	Total
2022 (excluding the three months ended 3/31/22)	\$554	\$512	\$1,066
2023	683	650	1,333
2024	633	317	950
2025	547	260	807
2026	329	-	329
Thereafter	1,393	-	1,393
Total lease payments	4,139	1,739	5,878
Less: interest	-	(71)	(71)
Total	\$4,139	\$1,668	\$5,807

Right-of-use assets, net of accumulated amortization, amounted to \$4.6 million for the period ended March 31, 2022.

NOTE 4 – SHAREHOLDERS’ EQUITY

The table below shows the Association’s regulatory capital requirements and ratios as of March 31, 2022. The Association exceeded all regulatory minimum capital requirements as of March 31, 2022 and December 31, 2021.

	Regulatory Minimums	Capital Conservation Buffer	Total	Mar. 31, 2022	Dec. 31, 2021
Risk-adjusted:					
Common Equity Tier 1 Capital	4.5%	2.5%	7.0%	10.24%	10.69%
Tier 1 Capital	6.0%	2.5%	8.5%	11.85%	12.37%
Total Capital	8.0%	2.5%	10.5%	13.15%	13.71%
Permanent Capital	7.0%	0.0%	7.0%	13.14%	13.69%
Non-risk-adjusted:					
Tier 1 Leverage	4.0%	1.0%	5.0%	13.46%	14.10%
URE and UREE Leverage	1.5%	0.0%	1.5%	11.57%	13.36%

On June 14, 2021, the Association issued \$300.0 million of Series A non-cumulative perpetual preferred stock at \$1,000 par value per share. The issuance carries an annual dividend rate of 5.25% payable quarterly until the First Reset Date of June 15, 2026, thereafter, the amount equal to the sum of the Five-Year Treasury Rate as of the most recent Reset Dividend Determination Date plus 4.50%. The issuance will be callable June 15, 2026 and quarterly thereafter.

The Series A preferred stock is junior upon liquidation or dissolution to any subordinated debt, existing and future debt obligations, and to any series of preferred stock issued in the future with priority rights. Series A preferred stock has a preference as to dividends and is senior upon liquidation or dissolution to outstanding Class C common stock, Class F participation certificates, and patronage equities.

Notes to the Consolidated Financial Statements (continued)

The following tables present the activity in the accumulated other comprehensive income (loss), net of tax by component:

	Pension and Other Benefit Plans	Accumulated Other Comprehensive Loss
Balance at December 31, 2021		
Other comprehensive loss before reclassifications	\$(19,121)	\$(19,121)
Amounts reclassified from accumulated other comprehensive loss	1,052	1,052
Net current period other comprehensive income	1,052	1,052
Balance at March 31, 2022	\$(18,069)	\$(18,069)

	Pension and Other Benefit Plans	Accumulated Other Comprehensive Loss
Balance at December 31, 2020		
Other comprehensive loss before reclassifications	\$(20,588)	\$(20,588)
Amounts reclassified from accumulated other comprehensive loss	1,166	1,166
Net current period other comprehensive income	1,166	1,166
Balance at March 31, 2021	\$(19,422)	\$(19,422)

The following table represents reclassifications out of accumulated other comprehensive income (loss):

	For the Three Months Ended		Location of Gain/(Loss) Recognized in Statement of Income
	Mar. 31, 2022	Mar. 31, 2021	
Pension and other benefit plans:			
Net actuarial gain	\$1,052	\$1,166	Salaries & Benefits
Total amounts reclassified	\$1,052	\$1,166	

NOTE 5 – SUBORDINATED NOTES

In June 2021, the Association issued \$200.0 million of Subordinated Notes (Notes), due in 2036, which may be redeemed all or in part on any interest payment date on or after June 2031. The Notes bear a fixed interest rate of 3.375% per annum, payable semi-annually until June 15, 2031, at which point the rate changes to a floating rate equal to the benchmark rate, expected to be three-month term SOFR, plus a spread of 212 basis points through maturity date or the date of earlier redemption. The Notes are subordinate to all other creditor debt, including general creditors, and senior to all classes of stock. The Notes are not considered System debt and are not an obligation of, nor guaranteed by any System entity. Further, payments on the Notes are not insured by the FCSIC. The notes are presented net of unamortized issuance costs of approximately \$2.5 million on the Consolidated Statements of Condition.

Notes to the Consolidated Financial Statements *(continued)*

NOTE 6 – FAIR VALUE MEASUREMENTS

Accounting standards define 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 to the 2021 Annual Report.

Assets and liabilities measured at fair value for each of the fair value hierarchy values are summarized below:

	March 31, 2022		December 31, 2021	
	Fair Value Measurement Using		Fair Value Measurement Using	
	Level 1	Level 3	Level 1	Level 3
Measured at fair value on a recurring basis:				
Assets held in nonqualified benefits trusts	\$28,842		\$27,645	
Measured at fair value on a non-recurring basis:				
Loans		\$1,716		\$1,382
Other Property Owned		\$4,160		\$4,160

During the reporting periods presented, the Association recorded no transfers in or out of Levels 1, 2, or 3. The Association had no liabilities measured at fair value on a recurring basis for the periods presented.

Valuation Techniques: Accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Associations' assets and liabilities.

Loans Evaluated for Impairment: For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases, it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value 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.

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

Assets Held in Nonqualified 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.

NOTE 7 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 10, 2022, which is the date the financial statements were available to be issued. On May 4, 2022, the Board of Directors of American AgCredit entered into a non-binding Letter of Intent to pursue a merger with Farm Credit of New Mexico, ACA. The Association anticipates a merger date of July 1, 2023, or as soon as practicable thereafter, subject to receiving all regulatory and shareholder approvals required.