

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 second 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.

Merger Activity

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.

Economic Overview

The second quarter of 2022 has been marked by interest rate increases, labor pressures, continued inflation, and volatility in both equity and fixed income markets. Many commodity prices, such as wheat, forest products, and petroleum products, have experienced annualized price increases as of June 2022 but were broadly lower as compared to March 2022. Numerous cryptocurrency prices have also experienced significant year-to-date declines, sometimes in excess of 50%. Inflationary trends persist, with the consumer price index increasing by 9.1% in June on an annualized basis. The largest contributors to the increase were gasoline, shelter, and food. The Federal Open Market Committee (FOMC) members have indicated inflationary concerns outweigh recessionary concerns, and large rate increases may be necessary to tamp down inflation. Through June 2022, the FOMC raised interest rates by a total of 150 basis points, including a historically large 75-basis point increase in June. The FOMC again raised rates by 75 basis points in July. According to the Freddie Mac Primary Mortgage Market Survey, the average rate on a 30-year fixed-rate mortgage increased from approximately 3.2% at the beginning of the year to 5.7% on June 30, 2022, although rates declined by about 0.5% in July. The U.S. dollar has substantially risen as compared to numerous foreign currencies, alongside rising food inflation and increased exports throughout the first half of the year. Some currencies, such as the euro and Japanese yen, are at or nearing 20-year lows against the U.S. dollar. A rising dollar tends to weigh on U.S. commodity prices which are denominated in U.S. dollars and reduce exports.

The domestic equities markets entered a bear market in the second quarter, with the S&P 500 declining 21.4% year-to-date through June 2022. U.S. Gross Domestic Product (GDP) also contracted at annual rates of 1.6% and 0.9% in the first and second quarters of 2022, respectively. Although two consecutive quarters of declining economic output is a commonly used definition of a recession, a determination

Management's Discussion and Analysis

by the National Bureau of Economic Research, which is widely used among government reporting for defining recessionary periods, has not yet been made. The unemployment rate was relatively unchanged, ending the quarter at 3.6%.

The agricultural labor and transportation markets continue to experience worker shortages, which has resulted in wage inflation. For example, trucker wages are up approximately 28% in the last 18 months. Agricultural labor shortages are most acute in the tree fruit and nuts, vegetables, and dairy sectors. Increased interest rates are softening demand for certain commodities, most notably for forest products. Many global economic powers continue to embargo or otherwise restrict the Russian economy because of the conflict in Ukraine. The supply shock from the loss of Ukrainian and Russian exports has impacted 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.

The western United States remains in significant drought conditions. Nearly all of California and Nevada are in drought conditions, including California's Central Valley which is entirely either in extreme or exceptional drought conditions. Most of Colorado and western Kansas are in drought conditions as well. Persistent drought could lead to increased feed costs in the beef and dairy industries as well as lower yields in wine, field crops, and tree fruit and nuts. Continued drought also increases the risk for western wildfires, which could impact the forest products industry.

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 16.55% and 14.30%, respectively, followed by field crops at 13.76%, dairies and dairy products at 10.77%, beef at 10.45%, and forest products at 7.71%. The top six commodities make up 73.54% of the total portfolio with the remaining 26.46% 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 other 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:** U.S. wine sales continue to improve in 2022. Total sales on a 12-month moving average basis recently surpassed the historical high reached in November 2019. Strong sales have been particularly observed in higher-end wines. Wine exports have also improved from a slow 2021 but remain below the historical average. Limited inventory, supply chain logistics, and a strengthening U.S. dollar may keep total exports somewhat lower. As many wineries are still short on inventory, demand for quality grapes has increased, which has increased prices. Early indications point to a strong harvest and good prices. Vineyard land values in prime locations also remain favorable. Labor costs and shortages in materials such as glass and barrels have increased the cost of production, although strong wine sales should help offset production cost inflationary pressures. Looking ahead towards the rest of the year, inflation and a slowing economy could dent wines sales and slow tasting room traffic while adding pressure to input prices. The industry will need to continue to develop sales across the price point spectrum, where successful marketing of lower priced wine could be vital.
- **Tree fruits and nuts:** The tree fruit and nut industry continues to work through a period of rising cost pressures and drought. Most key production areas remain in severe to exceptional drought. Production of almonds, walnuts, cherries, peaches, and pistachios are expected to be impacted. Input costs for chemicals, fertilizers, labor, and fuel remain elevated. The cost of water has also increased and the California Water Index increased nearly 10% year-to-date. Average wages in some areas have experienced total double digit increases in the last 24 months. The substantial wage increase will likely cut into margins. The US Department of Agriculture (USDA) recently estimated the almond crop yield would be 11% lower than the prior year. This decline for the second consecutive year is due to a late frost during bloom season followed by the persistent drought. A smaller 2022 crop may help bring inventory figures back to averages and improve prices. Total walnut bearing acres increased in 2021 about 2.6% and prices for the 2021 crop Chandler walnuts remain in the \$0.70 - \$0.80 per pound range. Rising exchange rates and supply chain issues are the most significant headwinds to walnut exports. Pistachio demand and shipments remain strong, which have helped to offset the

Management's Discussion and Analysis

large harvest and stabilize price movement. Cherry quality has been reported as very good, and prices have strengthened due to both higher quality and a smaller crop. Avocado growers in California began the harvest for the current crop sooner than normal due to the shortage of avocados from Mexico, which is pushing prices higher. Some early avocado fruit is coming in at a smaller size, and the final projected yield for the 2022 crop is expected to be lower at 286 million pounds.

- **Field crops:** Most field crop producers expect to be profitable in 2022, with some exceptions to drought-stricken areas. Prices for drought-impacted commodities are overall expected to be high from a historical perspective but down since March levels. There is concern that rises in grain and hay prices will not outlast the rise in input prices going into 2023. Input costs for machinery, fertilizer, chemicals, and diesel have rapidly ascended in 2022. Many of these costs were already elevated in 2021, however, Russia's invasion of Ukraine caused additional shortages in fertilizers, chemicals, and energy. Most grain and oilseed farmers had already purchased, or hedged, large portions of their 2022 inputs, but will likely take the full brunt of costs for the 2023 crop. Wheat prices were in the top 2 percentile over the last 20 years and peaked in May but have recently declined from highs. The stocks-to-use ratio for wheat remains favorable. The USDA recently estimated corn production would be about 4% below year-ago levels, but consumption would only decline 2% from year-ago levels. The corn stocks-to-use ratio is expected to be low, which has resulted in a strong futures market. The global price for oilseeds has significantly accelerated, leading to favorable soybean prices. The USDA currently estimates that cotton acres will increase nearly 1 million acres, but yields are expected to be lower and production is expected to be roughly similar to year-ago levels.
- **Dairy:** The supply and demand fundamentals of dairy were favorable through June. Cash milk prices in California, Colorado, and Kansas were historically high and eclipsed \$25 per hundredweight during the second quarter. Much of the price appreciation was due to a decline in overall dairy supplies. However, forward-looking futures prices for the remainder of 2022 have recently declined sharply. The dip in dairy production through the second quarter was mostly a result of heavy culling resulting in a smaller dairy herd. Due to herd and production contraction and general inflation, retail prices for most dairy uses reached records in June. Strong milk cow values are a result of dairy producers bidding up good quality milking cows for the immediate value of the milk production. Strong milking cow and cull prices, as well as high feed costs, have enticed some dairy producers to exit the market or reduce their herd to improve efficiency. Retail dairy prices have reached new highs through the second quarter. For example, whole milk, butter, and nonfat dried milk all hit five-year highs in June 2022, although recently futures markets have shown some declines. Ongoing drought conditions, supply chain disruptions, rising fuel costs, and the war in Ukraine has significantly driven up the cost of nearly all feed inputs. Profit margins are expected to be positive overall for 2022, although high input prices may begin to affect profitability in late 2022 to early 2023.
- **Beef:** Beef conditions have remained relatively consistent through the first half of 2022. Cow-calf producers have enjoyed fairly strong calf prices, but drought conditions continue to stress pasture quality in much of Colorado, Nevada, California, and portions of Southwest Kansas. Many ranchers have reduced their herd size by slaughtering older stock. Live cattle prices have remained strong, but feed cost remain high. Range conditions are likely to be stressed and many ranchers have either reduced stocking rates and/or added supplementary feed. The USDA slightly lowered their forecast for beef consumption in 2022, however 2022 consumption is still expected to be above 2021 levels. Strong beef demand continues during a period of high retail prices for protein products. So far, the consumer has continued to indicate that they are willing to pay higher retail prices, which has supported cattle markets. Export demand also remains robust as much of the growth in exports continues to come from the East Asian markets. The supply of beef also remains strong. Total beef processed through the first 22 weeks of 2022 is about 1.6% above 2021 and 11% above the recent average. Additionally, cattle on feed remains at historically elevated levels. The USDA revised estimated total production up by about 65 million pounds in June. Overall, profit margins are expected to be positive for the first half of 2022 but mixed in the second half.
- **Forest products:** The sentiment in the forest products industry remains mostly positive. Prices for most construction materials have declined from recent highs but remain above pre-pandemic averages. Periods of economic slowness in 2022 could slow demand for construction materials. Notably, the bump in mortgage rates starting in April 2022 has not yet resulted in a significant

Management's Discussion and Analysis

change to construction spending. Many construction projects are booked out months in advance and available housing supplies remain tight, therefore it may take time before interest rate hikes cause a significant impact to construction spending. Log prices have strongly appreciated, as dealer and mill stocks of many forest products remain low. Demand for quality timberland remains strong, but the available supply of quality timber stands is limited. Prices for other forest products also remained elevated. Panel prices, another key construction material, have declined from recent highs, but remain well above pre-pandemic averages. Other products such as MDF, cardboard, kraft board, etc. remained at historically high levels.

Loan Portfolio

Total loan and lease volume was \$16.5 billion at June 30, 2022, an increase of \$566.1 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 June 30, 2021, resulting in a growth rate of 13.16%. Credit quality remains strong at 97.77% as of June 30, 2022 and was 97.79% as of 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 \$16.5 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 June 30, 2022.

Nonearning Assets

Nonaccrual loan volume increased by \$33.6 million to \$100.1 million at June 30, 2022, 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 \$53.1 million, offset by \$13.2 million year-to-date repayments on nonaccrual loans, charge-offs of nonaccrual loans of \$1.7 million, and loans reinstated to accrual status of \$4.6 million. Nonaccrual loan volume represented 0.61% of total loan volume at the end of June 30, 2022, compared to 0.34% at June 30, 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 \$39.1 million at June 30, 2022, which included a \$35.5 million allowance for loan losses and a \$3.6 million reserve for unfunded commitments.

Investment in CoBank

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

Financial Condition and Results of Operations

Net income for the six months ended June 30, 2022 was \$190.7 million compared to \$177.3 million for the same period last year, an increase of \$13.4 million. The change in net income was primarily due to the following reasons:

- Net interest income increased by \$20.8 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 was 1.49% and 0.74% as of June 30, 2022 and 2021, respectively.

Management's Discussion and Analysis

- The Association recorded a recovery of credit losses \$1.8 million through June 30, 2022 as compared to a provision for credit losses of \$3.0 million a year ago. This overall \$4.8 million decrease is primarily a result of changes in assumptions used in the provision estimate recorded in March 2022.
- Non-interest income increased by \$4.2 million year-over-year. The increase was primarily due to a \$6.2 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 \$3.5 million when compared to June 2021. The FCSIC board voted to increase the insurance premium assessment rate on adjusted insured debt to 20 basis points retroactive for all of 2022, up from an original rate of 16 basis points.
- Overall, non-interest operating expenses increased by \$16.4 million compared to the same period last year, primarily caused by the FCSIC rate increase and increases in salaries and benefits due to higher headcount in 2022.

The major components of change in net income are summarized as follows (dollars in thousands):

	For the Six Months Ended		Increase
	June 30, 2022	June 30, 2021	(Decrease) in Net Income
Net interest income	\$238,579	\$217,767	\$20,812
Reversal of/(Provision for) credit losses	1,827	(3,012)	4,839
Patronage income	57,843	51,147	6,696
Other income, net	10,684	13,214	(2,530)
Non-interest expenses	(118,254)	(101,829)	(16,425)
Provision for income taxes	(17)	(2)	(15)
Net income	\$190,662	\$177,285	\$13,377

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

	June 30,	
	2022	2021
Return on average assets	2.23%	2.21%
Return on common equity	15.52%	14.89%
Return on total equity	13.83%	13.77%
Net interest margin	2.94%	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.

Management's Discussion and Analysis

Shareholders' Equity

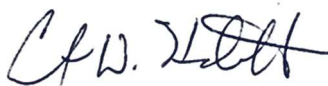
The Association's capital position remains strong. Total shareholders' equity was \$2.9 billion at the end of the second quarter, an increase of \$183.3 million from \$2.7 billion at December 31, 2021. The increase in capital is primarily the result of the Association's strong year-to-date net income. The Association was in compliance with all capital ratio requirements at June 30, 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.

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

August 9, 2022

Consolidated Statements of Condition (dollars in thousands)

	June 30, 2022	December 31, 2021
	<i>(Unaudited)</i>	<i>(Audited)</i>
ASSETS		
Loans	\$16,500,802	\$15,934,730
Less: allowance for loan losses	(35,537)	(37,515)
Net loans	16,465,265	15,897,215
Cash	33,801	7,946
Accrued interest receivable	132,059	119,531
Investment in CoBank	456,667	475,173
Investment in AgDirect	25,578	23,090
Premises and equipment, net	112,646	115,113
Other property owned	4,160	4,160
Other assets	193,964	326,154
Total assets	\$17,424,140	\$16,968,382
LIABILITIES		
Notes payable to CoBank	\$13,759,777	\$13,571,210
Subordinated notes, net	197,674	197,591
Funds Held accounts	457,348	211,925
Accrued interest payable	32,264	22,844
Cash patronage distributions payable	604	162,855
Reserve for unfunded commitments	3,599	4,192
Other liabilities	126,147	134,310
Total liabilities	14,577,413	14,304,927
SHAREHOLDERS' EQUITY		
Preferred stock	300,000	300,000
Common stock and participation certificates	10,656	10,495
Additional paid-in capital	677,110	677,110
Unallocated retained surplus	1,875,979	1,694,971
Accumulated other comprehensive loss	(17,018)	(19,121)
Total shareholders' equity	2,846,727	2,663,455
Total liabilities and shareholders' equity	\$17,424,140	\$16,968,382

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

Consolidated Statements of Comprehensive Income (dollars in thousands)

(Unaudited)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
INTEREST INCOME				
Loans	\$170,076	\$141,869	\$321,136	\$276,249
Total interest income	170,076	141,869	321,136	276,249
INTEREST EXPENSE				
Notes payable CoBank	45,425	28,605	77,455	57,352
Subordinated notes	1,729	375	3,458	375
Funds Held and other interest	1,038	471	1,644	755
Total interest expense	48,192	29,451	82,557	58,482
Net interest income	121,884	112,418	238,579	217,767
(Provision for)/Reversal of credit losses	(3,876)	(5,246)	1,827	(3,012)
Net interest income after provision for credit losses	118,008	107,172	240,406	214,755
NON-INTEREST INCOME				
Patronage income from CoBank	18,070	18,586	37,407	33,224
Patronage income from other Farm Credit institutions	11,057	11,084	18,939	16,909
Patronage income from AgDirect	969	607	1,497	1,014
Loan origination fees	2,579	3,601	4,753	7,196
Servicing fees and late charges	1,466	1,990	1,970	2,316
Financially related services	652	799	1,443	1,709
Miscellaneous	1,223	1,118	2,518	1,993
Total non-interest income	36,016	37,785	68,527	64,361
NON-INTEREST EXPENSES				
Salaries and benefits	35,944	31,957	71,851	63,379
Occupancy and equipment expense	2,494	2,597	5,108	5,187
Insurance fund premiums	7,835	4,809	13,018	9,472
Supervisory and examination expense	915	718	1,685	1,437
Other operating expenses	15,315	10,619	26,592	22,354
Total non-interest expenses	62,503	50,700	118,254	101,829
Income before income taxes	91,521	94,257	190,679	177,287
Provision for income taxes	(17)	(2)	(17)	(2)
Net income	\$91,504	\$94,255	\$190,662	\$177,285
COMPREHENSIVE INCOME				
Actuarial gain in retirement obligation	1,051	1,166	2,103	2,332
Total comprehensive income	\$92,555	\$95,421	\$192,765	\$179,617

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

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

For the Six Months Ended June 30, 2021 and 2022

<i>(Unaudited)</i>	Common Stock and Participation Certificates	Preferred Stock	Additional Paid-in Capital	Unallocated Retained Surplus	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2020	\$10,212	\$175,623	\$683,656	\$1,520,252	\$(20,588)	\$2,369,155
Comprehensive income				177,285	2,332	179,617
Series A preferred stock issued		300,000				300,000
Stock/participation certificates issued	717	49,681				50,398
Stock/participation certificates retired	(509)	(225,575)				(226,084)
Preferred stock dividends paid		271				271
Preferred stock dividends accrued				(270)		(270)
Adjustment to prior period patronage accrual				(5,255)		(5,255)
Issuance initial costs			(8,453)			(8,453)
Balance at June 30, 2021	\$10,420	\$300,000	\$675,203	\$1,692,012	\$(18,256)	\$2,659,379
Balance at December 31, 2021	\$10,495	\$300,000	\$677,110	\$1,694,971	\$(19,121)	\$2,663,455
Comprehensive income				190,662	2,103	192,765
Stock/participation certificates issued	606					606
Stock/participation certificates retired	(445)					(445)
Preferred stock dividends				(7,875)		(7,875)
Adjustment to prior period patronage accrual				(1,779)		(1,779)
Balance at June 30, 2022	\$10,656	\$300,000	\$677,110	\$1,875,979	\$(17,018)	\$2,846,727

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 second 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.

Recently Adopted or Issued Accounting Pronouncements

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

In 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:

	June 30, 2022		December 31, 2021	
	Amount	Percentage	Amount	Percentage
Real estate mortgage	\$9,377,865	56.8%	\$8,889,724	55.8%
Production and intermediate-term	3,281,531	19.9%	3,514,590	22.0%
Agribusiness	3,282,112	19.9%	2,960,834	18.6%
Rural infrastructure	516,138	3.1%	526,303	3.3%
Agricultural export finance	41,558	0.3%	41,554	0.3%
Rural residential real estate	1,598	0.0%	1,725	0.0%
Total loans	\$16,500,802	100.0%	\$15,934,730	100.0%

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 June 30, 2022. The Association had no participations purchased from or sold to non-Farm Credit institutions at June 30, 2022.

	Other Farm Credit Institutions	
	Participations	
	Purchased	Sold
Real estate mortgage	\$552,918	\$1,935,917
Production and intermediate-term	748,732	907,033
Agribusiness	1,874,899	2,468,190
Rural infrastructure	484,709	60,691
Agricultural export finance	41,558	-
Total	\$3,702,816	\$5,371,831

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 June 30, 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 June 30, 2022						
	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
Real estate mortgage	\$9,122,842	96.3%	\$173,842	1.8%	\$178,827	1.9%	\$9,475,511
Production and intermediate-term	3,109,341	94.1%	96,123	2.9%	98,177	3.0%	3,303,641
Agribusiness	3,179,733	96.5%	22,544	0.7%	91,474	2.8%	3,293,751
Rural infrastructure	516,478	100.0%	-	0.0%	-	0.0%	516,478
Rural residential real estate	1,532	95.3%	-	0.0%	76	4.7%	1,608
Agricultural export finance	41,872	100.0%	-	0.0%	-	0.0%	41,872
Total	\$15,971,798	96.0%	\$292,509	1.8%	\$368,554	2.2%	\$16,632,861

	As of December 31, 2021						
	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	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>June 30, 2022</u>	<u>December 31, 2021</u>
Nonaccrual loans:		
Real estate mortgage	\$48,692	\$39,126
Production and intermediate-term	22,819	13,913
Agribusiness	28,466	13,298
Rural residential real estate	76	99
Total nonaccrual loans	100,053	66,436
Accruing restructured loans:		
Real estate mortgage	9,007	9,577
Production and intermediate-term	13	16
Agribusiness	1,866	-
Total accruing restructured loans	10,886	9,593
Accruing loans > 90 days past due:		
Real estate mortgage	-	658
Total accruing loans > 90 days past due	-	658
Total impaired loans	110,939	76,687
Other property owned	4,160	4,160
Total impaired assets	\$115,099	\$80,847

Additional impaired loan information is as follows:

	<u>At June 30, 2022</u>			<u>For the Six Months Ended June 30, 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	\$45,707	\$46,061	\$5,441	\$5,197	\$4
with no related allowance for credit losses	65,232	132,941	-	78,221	1,955
Total	\$110,939	\$179,002	\$5,441	\$83,418	\$1,959
	<u>At June 30, 2021</u>			<u>For the Six Months Ended June 30, 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	\$5,239	\$6,339	\$1,958	\$3,207	\$-
with no related allowance for credit losses	62,755	84,815	-	61,338	2,727
Total	\$67,994	\$91,154	\$1,958	\$64,545	\$2,727

Notes to the Consolidated Financial Statements *(continued)*

DELINQUENCY

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

June 30, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans
Real estate mortgage	\$2,074	\$4,223	\$6,297	\$9,469,214	\$9,474,511
Production and intermediate-term	8,544	2,494	11,038	3,292,603	3,303,641
Agribusiness	8,981	-	8,981	3,284,770	3,293,751
Rural infrastructure	-	-	-	516,478	516,478
Rural residential real estate	-	-	-	1,608	1,608
Agricultural export finance	-	-	-	41,872	41,872
Total	\$19,599	\$6,717	\$26,316	\$16,606,545	\$16,632,861

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 following table presents additional information regarding TDRs, whether accrual or non-accrual, that occurred during the first six months of 2022. The Association had no new TDRs in the first six months of 2021.

	<u>For the Six Months Ended June 30, 2022</u>	
	<u>Pre-modification Outstanding Recorded Investment*</u>	<u>Post-modification Outstanding Recorded Investment*</u>
Troubled debt restructurings:		
Production and intermediate-term	\$350	\$350
Total	\$350	\$350

*Pre-modification represents the recorded investment prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable, increased or decreased by applicable accrued and unamortized premium, discount, finance charges, or acquisition costs, and may also reflect a previous direct write-down of the investment.

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 June 30, 2022:

	<u>TDRs in Accrual Status</u>		<u>TDRs in Nonaccrual Status</u>		<u>Total TDRs</u>	
	<u>Jun. 30, 2022</u>	<u>Dec. 31, 2021</u>	<u>Jun. 30, 2022</u>	<u>Dec. 31, 2021</u>	<u>Jun. 30, 2022</u>	<u>Dec. 31, 2021</u>
Real estate mortgage	\$10,854	\$9,539	\$482	\$2,403	\$11,336	\$11,942
Production and intermediate-term	13	15	1,419	1,094	1,432	1,109
Total	\$10,867	\$9,554	\$1,901	\$3,497	\$12,768	\$13,051

At June 30, 2022, the Association had no additional commitments to lend to borrowers whose loans have been modified in TDRs.

Notes to the Consolidated Financial Statements *(continued)*

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 Jun. 30, 2022	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Balance at Jun. 30, 2022	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	\$9,154	\$93	\$9,061	\$9,475,512	\$57,699	\$9,417,813
Production and intermediate-term	12,302	641	11,661	3,303,640	22,833	3,280,807
Agribusiness	13,568	4,707	8,861	3,293,751	30,331	3,263,420
Rural infrastructure	436	-	436	516,478	-	516,478
Rural residential real estate	-	-	-	1,608	76	1,532
Agricultural export finance	77	-	77	41,872	-	41,872
Total	\$35,537	\$5,441	\$30,096	\$16,632,861	\$110,939	\$16,521,922

	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

Notes to the Consolidated Financial Statements (continued)

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

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Allowance for Loan Losses		
Balance at beginning of year	\$37,515	\$33,211
Charge-offs	(1,707)	(5,457)
Recoveries	962	3,529
Provision for/(Reversal of) loan losses	(1,233)	3,547
Balance at end of quarter	<u>\$35,537</u>	<u>\$34,830</u>

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

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
Reserve for Unfunded Commitments		
Balance at beginning of year	\$4,192	\$4,482
Reversal of unfunded commitments	(593)	(535)
Balance at end of quarter	<u>\$3,599</u>	<u>\$3,947</u>

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.

Future minimum lease payments under non-cancellable leases as of June 30, 2022 were as follows:

	<u>Operating Leases</u>	<u>Finance Leases</u>	<u>Total</u>
2022 (excluding the six months ended 6/30/22)	\$361	\$407	\$768
2023	683	765	1,448
2024	633	433	1,066
2025	547	378	925
2026	329	-	329
Thereafter	1,393	-	1,393
Total lease payments	<u>3,946</u>	<u>1,983</u>	<u>5,929</u>
Less: interest	-	(103)	(103)
Total	<u>\$3,946</u>	<u>\$1,880</u>	<u>\$5,826</u>

Right-of-use assets, net of accumulated amortization, amounted to \$4.6 million for the period ended June 30, 2022.

Notes to the Consolidated Financial Statements *(continued)*

NOTE 4 – SHAREHOLDERS’ EQUITY

The table below shows the Association’s regulatory capital requirements and ratios as of June 30, 2022. The Association exceeded all regulatory minimum capital requirements as of June 30, 2022 and December 31, 2021.

	<u>Regulatory Minimums</u>	<u>Capital Conservation Buffer</u>	<u>Total</u>	<u>Jun. 30, 2022</u>	<u>Dec. 31, 2021</u>
Risk-adjusted:					
Common Equity Tier 1 Capital	4.5%	2.5%	7.0%	10.48%	10.69%
Tier 1 Capital	6.0%	2.5%	8.5%	12.06%	12.37%
Total Capital	8.0%	2.5%	10.5%	13.30%	13.71%
Permanent Capital	7.0%	0.0%	7.0%	13.34%	13.69%
Non-risk-adjusted:					
Tier 1 Leverage	4.0%	1.0%	5.0%	13.77%	14.10%
URE and UREE Leverage	1.5%	0.0%	1.5%	11.90%	13.36%

On June 14, 2021, the Association issued \$300 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.

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

	<u>Pension and Other Benefit Plans</u>	<u>Accumulated Other Comprehensive Loss</u>
Balance at December 31, 2021		
Other comprehensive loss before reclassifications	\$(19,121)	\$(19,121)
Amounts reclassified from accumulated other comprehensive loss	2,103	2,103
Net current period other comprehensive income	2,103	2,103
Balance at June 30, 2022	\$(17,018)	\$(17,018)

	<u>Pension and Other Benefit Plans</u>	<u>Accumulated Other Comprehensive Loss</u>
Balance at December 31, 2020		
Other comprehensive loss before reclassifications	\$(20,588)	\$(20,588)
Amounts reclassified from accumulated other comprehensive loss	2,332	2,332
Net current period other comprehensive income	2,332	2,332
Balance at June 30, 2021	\$(18,256)	\$(18,256)

Notes to the Consolidated Financial Statements (continued)

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

	For the Six Months Ended		Location of Gain/(Loss) Recognized in Statement of Income
	Jun. 30, 2022	Jun. 30, 2021	
Pension and other benefit plans:			
Net actuarial gain	\$2,103	\$2,332	Salaries & Benefits
Total amounts reclassified	\$2,103	\$2,332	

NOTE 5 – SUBORDINATED NOTES

In June 2021, the Association issued \$200 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 \$2.3 million on the Consolidated Statements of Condition at June 30, 2022.

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:

	June 30, 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	\$29,246		\$27,645	
Measured at fair value on a non-recurring basis:				
Loans		\$40,266		\$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.

Notes to the Consolidated Financial Statements *(continued)*

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 August 9, 2022, which is the date the financial statements were available to be issued.