



SOUTHERN AGCREDIT

Financial Solutions for Agriculture

Stockholders' Quarterly Financial Report

For the Quarter Ended March 31, 2022

REPORT OF MANAGEMENT

The consolidated financial statements of Southern AgCredit, ACA (association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The board of directors has overall responsibility for the association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations.

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



Philip D. Morgan, CPA
Chief Executive Officer
May 10, 2022



Kevin Rhodes
Chairman, Board of Directors
May 10, 2022



Britny B. Hester, CPA
Chief Financial Officer
May 10, 2022

SOUTHERN AGCREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Southern AgCredit, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended March 31, 2022. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2021 Annual Report to Stockholders.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly owned subsidiaries. The consolidated financial statements were prepared under the oversight of the association's audit committee.

Significant Events:

In December 2021, the association's board of directors declared a patronage in the amount of \$22,839,184 to stockholders, including \$11,232,746 to be paid in cash, and \$ 11,606,438 in the form of non-qualified allocated equity on behalf of the individual stockholders and retained by the association. Nonqualified allocated equities retained by the association assures the cooperative has adequate capital to continue supporting rural communities and agriculture with reliable, consistent credit and financial services. Nonqualified allocated equities are not taxable to the stockholder. The cash patronage was disbursed to the association stockholders in February 2022. The 2021 cash patronage is a record return of earnings to the stockholders of the association and represents on average a 1 percent reduction in borrowers loan interest rate.

The association continues to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the association while offering competitive loan products that meet the financial needs of agricultural producers.

COVID Discussion:

The United States has been operating under a presidentially declared emergency since March 13, 2020, due to the Coronavirus Disease 2019 (also referred to as COVID-19). While normal working conditions changed with the implementation of a more remote working environment at the onset, the association continued to fulfill its mission to support agricultural and rural communities by providing access to reliable and consistent credit. As of March 31, 2022, there have been no observable delinquencies or credit metrics impacting the credit quality of our portfolio related to COVID-19. The current high-risk accounting guidelines and troubled debt restructure practices that were relaxed, have returned to normal status. All previously made deferrals, granted to borrowers affected by COVID-19 have been resolved, and no deterioration in credit quality has been recognized. We will continue to monitor our loan portfolio overall and will stay particularly focused on sectors that may be pressured by COVID-19 and any possible related economic impacts, such as oil and gas, food processing, timber, and beef cattle. During our analysis of our allowance for loan losses, we did take into consideration the possible negative effects of COVID-19. As a result, no material additional adjustment was deemed necessary during the subsequent months related to COVID-19. We are aware other variants of the virus may have an impact on our portfolio and the general economy. We will continue to discuss any changes that arise and take the appropriate action based on the information available. Capital levels remain strong and will support further adversity and continued loan demand.

Loan Portfolio:

Total loans outstanding at March 31, 2022, including nonaccrual loans and sales contracts, were \$1,295,630,117 compared to \$1,289,284,462 at December 31, 2021, reflecting an increase of 0.5 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at March 31, 2022, and December 31, 2021.

The association recorded no recoveries or charge-offs for the quarter ended March 31, 2022, or for the same period in 2021. The association's allowance for loan losses was 0.1 percent of total loans outstanding as of March 31, 2022 and December 31, 2021.

Agribusiness Loan Program

The association utilizes the Mississippi Development Authority's Agribusiness Enterprise Loan Program (ABE) to lower the cost of financing for its borrowers. The ABE loan program is designed to provide a percentage of low-cost state financing that is combined with private financial lending institutions' loan proceeds to encourage loans to the agribusiness industry in the state.

The association guarantees payment of the borrower's ABE loan to the Mississippi Development Authority (MDA) and, therefore, the amount of ABE loans outstanding and due to MDA is included in "Loans" on the consolidated balance sheet with an offsetting

liability at "Guaranteed obligations to government entities." ABE loans totaled \$13,274,631 and \$13,826,284 as of March 31, 2022 and December 31, 2021, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association's components and trends of high-risk assets.

	March 31, 2022		December 31, 2021	
	Amount	%	Amount	%
Nonaccrual	\$ 2,201,823	71.6%	\$ 2,291,400	68.9%
Formally restructured	651,551	21.2%	653,162	19.7%
Other property owned, net	220,430	7.2%	379,732	11.4%
Total	\$ 3,073,804	100.0%	\$ 3,324,294	100.0%

The balance of nonaccrual volume as of March 31, 2022 is primarily secured by real estate with a total specific allowance of \$44,555 related to two loans. The decrease in nonaccrual volume since the prior year end is due to the aggregate total of principal payments during the period.

The balance of other property owned as of March 31, 2022, consists of three unrelated properties. The decrease in other property owned is due to the sale of one property during the period.

Investments:

During 2010, the association exchanged \$35,192,440 of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transactions since the loans were at a market rate, guaranteed by Farmer Mac and the servicing fee adequately compensates the association for the cost to service the loans. These AMBS are included in the association's Consolidated Balance Sheet as held-to-maturity investments at an amortized cost balance of \$1,786,646 at March 31, 2022. The association continues to service the loans included in those transactions.

Results of Operations:

The association had net income of \$5,921,733 for the three months ended March 31, 2022, as compared to net income of \$5,822,445 for the same period in 2021, reflecting an increase of 1.7 percent. Net interest income was \$7,849,635 for the three months ended March 31, 2022, compared to \$7,634,515 for the same period in 2021, reflecting an increase of 2.8 percent.

	Three Months Ended			
	March 31, 2022		March 31, 2021	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 1,281,813,280	\$ 13,007,794	\$ 1,206,883,400	\$ 12,485,496
Investments	2,306,360	24,308	3,402,888	33,404
Total interest-earning assets	1,284,119,640	13,032,102	1,210,286,288	12,518,900
Interest-bearing liabilities	1,099,413,644	5,182,467	1,034,627,779	4,884,385
Impact of capital	\$ 184,705,996		\$ 175,658,509	
Net interest income		\$ 7,849,635		\$ 7,634,515

	2022	2021
	Average Yield	Average Yield
Yield on loans	4.12%	4.20%
Yield on investments	4.27%	3.98%
Total yield on interest-earning assets	4.12%	4.19%
Cost of interest-bearing liabilities	1.91%	1.91%
Interest rate spread	2.21%	2.28%
Net interest income as a percentage of average earning assets	2.48%	2.56%

	Three months ended:		
	March 31, 2022 vs. March 31, 2021		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 775,173	\$ (252,875)	\$ 522,298
Interest income - investments	(10,764)	1,668	(9,096)
Total interest income	764,409	(251,207)	513,202
Interest expense	305,850	(7,768)	298,082
Net interest income	\$ 458,560	\$ (243,440)	\$ 215,120

Interest income for the three months ended March 31, 2022, increased by \$513,202, or 4.1 percent respectively, from the same period of 2021, primarily due to an increase in average loan volume, mitigated by declines in yields on interest earning assets due to increased markets competition. Interest expense for the three months ended March 31, 2022, increased by \$298,082, or 6.1 percent, from the same period of 2021 due to an increase in average debt volume offset by a relatively unchanged average portfolio interest rate. Average loan volume for the first quarter of 2022 was \$1,281,813,280, compared to \$1,206,883,400 in the same period of 2021. The average net interest rate spread on the loan portfolio for the first quarter of 2022 was 2.21 percent, compared to 2.28 percent in the first quarter of 2021.

The association's return on average assets for the three months ended March 31, 2022, was 1.81 percent compared to 1.89 percent for the same period in 2021. The difference is representative of both a decline in overall portfolio offering rates relative to competition as well as increased customer outreach through advertising and public and member relations efforts. The association's return on average equity for the three months ended March 31, 2022, was 12.09 percent, compared to 12.67 percent for the same period in 2021.

Liquidity and Funding Sources:

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

	March 31, 2022	December 31, 2021
	Note payable to the bank	\$ 1,118,465,044
Accrued interest on note payable	1,849,580	1,782,169
Total	\$ 1,120,314,624	\$ 1,103,296,007

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2022. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of \$1,118,465,044 as of March 31, 2022, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 1.94 percent at March 31, 2022. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2021, is due to increased borrowing needs at the association. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were \$160,277,787 at March 31, 2022. The maximum amount the association may borrow from the bank as of March 31, 2022, was \$1,290,768,910 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2022, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

Capital Resources:

The association's capital position increased by \$5,968,353 at March 31, 2022 compared to December 31, 2021. The association's debt as a percentage of members' equity was 5.66:1 as of March 31, 2022, compared to 5.81:1 as of December 31, 2021.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2022, the association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

Refer to Note 1 – “Organization and Significant Accounting Policies” in this quarterly report for disclosures of recent accounting pronouncements which may impact the association’s consolidated financial position and results of operations and for critical accounting policies.

Relationship With the Farm Credit Bank of Texas:

The association’s financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder’s investment in the association. The Management’s Discussion and Analysis and Notes to Financial Statements contained in the 2021 Annual Report of Association New Model more fully describe the association’s relationship with the bank.

The annual and quarterly stockholder reports of the bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the bank are also available on its website at www.farmcreditbank.com.

The association’s quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Southern AgCredit, ACA, 402 West Parkway Place, Ridgeland, MS 39157 or calling 601-499-2820. The annual and quarterly stockholder reports for the association are also available on its website at www.southernagcredit.com. Copies of the association’s quarterly stockholder reports can also be requested by e-mailing dlsouthernagcreditadmin@farmcreditbank.com.

SOUTHERN AGCREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	March 31, 2022 (unaudited)	December 31, 2021
<u>ASSETS</u>		
Cash	\$ 8,439	\$ 8,532
Investments	1,786,646	2,508,354
Loans	1,295,630,117	1,289,284,462
Less: allowance for loan losses	<u>1,673,466</u>	<u>1,642,986</u>
Net loans	1,293,956,651	1,287,641,476
Accrued interest receivable		
Loans	10,286,901	9,081,198
Investments	35,085	30,806
Investment in and receivable from the Farm		
Credit Bank of Texas:		
Capital stock	21,136,680	21,136,680
Other	2,092,239	812,853
Other property owned, net	220,430	379,732
Premises and equipment, net	12,579,953	11,288,274
Other assets	<u>1,659,674</u>	<u>1,058,108</u>
Total assets	<u><u>\$ 1,343,762,698</u></u>	<u><u>\$ 1,333,946,013</u></u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 1,118,465,044	\$ 1,101,513,838
Guaranteed obligations to government entities	13,274,631	13,826,284
Advance conditional payments	99,292	119,292
Accrued interest payable	1,849,580	1,782,169
Drafts outstanding	2,349,307	134,851
Patronage distributions payable	-	11,232,746
Other liabilities	<u>5,996,593</u>	<u>9,576,935</u>
Total liabilities	<u><u>1,142,034,447</u></u>	<u><u>1,138,186,115</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	5,080,510	5,030,515
Additional paid-in capital	10,238,891	10,238,891
Unallocated retained earnings	186,614,328	180,692,595
Accumulated other comprehensive income (loss)	<u>(205,478)</u>	<u>(202,103)</u>
Total members' equity	<u>201,728,251</u>	<u>195,759,898</u>
Total liabilities and members' equity	<u><u>\$ 1,343,762,698</u></u>	<u><u>\$ 1,333,946,013</u></u>

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended March 31,	
	2022	2021
<u>INTEREST INCOME</u>		
Loans	\$ 13,007,794	\$ 12,485,496
Investments	<u>24,308</u>	<u>33,404</u>
Total interest income	<u>13,032,102</u>	<u>12,518,900</u>
<u>INTEREST EXPENSE</u>		
Note payable to the Farm Credit Bank of Texas	5,182,409	4,884,365
Advance conditional payments	<u>58</u>	<u>20</u>
Total interest expense	<u>5,182,467</u>	<u>4,884,385</u>
Net interest income	<u>7,849,635</u>	<u>7,634,515</u>
<u>PROVISION FOR LOAN LOSSES</u>		
	<u>31,601</u>	<u>156,653</u>
Net interest income after provision for loan losses	<u>7,818,034</u>	<u>7,477,862</u>
<u>NONINTEREST INCOME</u>		
Income from the Farm Credit Bank of Texas:		
Patronage income	2,025,264	1,668,879
Loan fees	99,820	113,945
Financially related services income	366	140
Gain (loss) on other property owned, net	(2,975)	(4,205)
Gain (loss) on sale of premises and equipment, net	-	1,533
Other noninterest income	<u>68,753</u>	<u>44,238</u>
Total noninterest income	<u>2,191,228</u>	<u>1,824,530</u>
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	2,026,288	1,775,957
Occupancy and equipment	371,103	401,490
Insurance Fund premiums	387,990	360,381
Other components of net periodic postretirement benefit cost	34,149	36,876
Other noninterest expense	<u>1,267,999</u>	<u>905,243</u>
Total noninterest expenses	<u>4,087,529</u>	<u>3,479,947</u>
Income before income taxes	<u>5,921,733</u>	<u>5,822,445</u>
NET INCOME	<u>5,921,733</u>	<u>5,822,445</u>
Other comprehensive income:		
Change in postretirement benefit plans	<u>(3,375)</u>	<u>(186)</u>
Other comprehensive income, net of tax	<u>(3,375)</u>	<u>(186)</u>
COMPREHENSIVE INCOME	<u>\$ 5,918,358</u>	<u>\$ 5,822,259</u>

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	\$ 4,811,195	\$ 10,238,891	\$ 168,801,991	\$ (429,264)	\$ 183,422,813
Comprehensive income	-	-	5,822,445	(186)	5,822,259
Capital stock/participation certificates and allocated retained earnings issued	281,645				281,645
Capital stock/participation certificates and allocated retained earnings retired	(240,930)				(240,930)
Balance at March 31, 2021	\$ 4,851,910	\$ 10,238,891	\$ 174,624,436	\$ (429,450)	\$ 189,285,787
Balance at December 31, 2021	\$ 5,030,515	\$ 10,238,891	\$ 180,692,595	\$ (202,103)	\$ 195,759,898
Comprehensive income	-	-	5,921,733	(3,375)	5,918,358
Capital stock/participation certificates and allocated retained earnings issued	233,805				233,805
Capital stock/participation certificates and allocated retained earnings retired	(183,810)				(183,810)
Balance at March 31, 2022	\$ 5,080,510	\$ 10,238,891	\$ 186,614,328	\$ (205,478)	\$ 201,728,251

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

SOUTHERN AGCREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Southern AgCredit, ACA, including its wholly-owned subsidiaries, Southern AgCredit, PCA and Southern AgCredit, FLCA (collectively called “the association”), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Adams, Amite, Carroll, Claiborne, Clarke, Copiah, Covington, Forrest, Franklin, George, Greene, Grenada, Hancock, Harrison, Hinds, Holmes, Humphreys, Issaquena, Jackson, Jasper, Jefferson, Jefferson Davis, Jones, Kemper, Lamar, Lauderdale, Lawrence, Leake, Leflore, Lincoln, Madison, Marion, Montgomery, Neshoba, Newton, Pearl River, Perry, Pike, Rankin, Scott, Sharkey, Simpson, Smith, Stone, Walthall, Warren, Washington, Wayne, Wilkinson and Yazoo in the state of Mississippi, as well as the parishes of Bienville, Bossier, Caddo, Claiborne, DeSoto, Jackson, Lincoln, Ouachita (west of Ouachita River), Red River, Union and Webster in the state of Louisiana. In addition, the association is the single owner of Parkway Place Investments, LLC, which was organized for the purpose of holding and managing foreclosed property for which the assets, liabilities and results of operation have been consolidated in the association’s financial statements. The association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2022. Descriptions of the significant accounting policies are included in the 2021 Annual Report to Stockholders. 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. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB 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. System institutions qualify for the delay in the adoption date. The System continues to evaluate the impact of adoption on the System’s financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended March 31, 2022, are not necessarily indicative of the results to be expected for the year ended December 31, 2022. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

The association may hold mission-related and other investments. The Farm Credit Administration approves mission-related programs and other mission-related investments. In January 2010, \$35,192,440 of agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

March 31, 2022				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
\$ 1,786,646	\$ -	\$ 13,092	\$ 1,773,554	4.34%

December 31, 2021				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
\$ 2,508,354	\$ 16,341	\$ -	\$ 2,524,695	4.17%

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of the makeup of the loan portfolio is as follows:

Loan Type	March 31, 2022 Amount	December 31, 2021 Amount
Production agriculture:		
Real estate mortgage	\$ 1,084,488,921	\$ 1,076,396,011
Production and intermediate term	112,965,617	117,711,254
Agribusiness:		
Loans to cooperatives	5,318,058	3,881,936
Processing and marketing	42,234,652	42,034,505
Farm-related business	8,693,747	8,772,893
Communication	22,661,869	22,736,063
Energy	11,926,127	12,107,618
Water and waste water	3,050,495	1,336,337
Rural residential real estate	2,663,561	2,680,872
Agricultural export finance	1,627,070	1,626,973
Total	<u>\$ 1,295,630,117</u>	<u>\$ 1,289,284,462</u>

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ -	\$ 1,237,251	\$ 81,512	\$ -	\$ 81,512	\$ 1,237,251
Production and intermediate term	15,827,244	37,493,269	-	-	15,827,244	37,493,269
Agribusiness	55,787,260	-	-	-	55,787,260	-
Communication	22,661,869	-	-	-	22,661,869	-
Energy	11,926,127	-	-	-	11,926,127	-
Water and waste water	3,050,495	-	-	-	3,050,495	-
Agricultural export finance	1,627,070	-	-	-	1,627,070	-
Total	<u>\$110,880,065</u>	<u>\$ 38,730,520</u>	<u>\$ 81,512</u>	<u>\$ -</u>	<u>\$110,961,577</u>	<u>\$ 38,730,520</u>

The association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were \$99,292 and \$119,292 at March 31, 2022, and December 31, 2021, respectively.

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	March 31, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	\$ 2,201,823	\$ 2,291,400
Production and intermediate term	-	-
Total nonaccrual loans	<u>2,201,823</u>	<u>2,291,400</u>
Accruing restructured loans:		
Real estate mortgage	577,066	580,346
Production and intermediate term	74,485	72,816
Total accruing restructured loans	<u>651,551</u>	<u>653,162</u>
Total nonperforming loans	2,853,374	2,944,562
Other property owned	220,430	379,732
Total nonperforming assets	<u>\$ 3,073,804</u>	<u>\$ 3,324,294</u>

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 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		December 31, 2021
Real estate mortgage			
Acceptable	98.76	%	98.67 %
OAEM	0.70		0.85
Substandard/doubtful	0.54		0.48
	<u>100.00</u>		<u>100.00</u>
Production and intermediate term			
Acceptable	99.93		99.94
OAEM	0.07		0.06
Substandard/doubtful	-		-
	<u>100.00</u>		<u>100.00</u>
Loans to cooperatives			
Acceptable	100.00		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<u>100.00</u>		<u>100.00</u>
Processing and marketing			
Acceptable	96.84		96.83
OAEM	-		-
Substandard/doubtful	3.16		3.17
	<u>100.00</u>		<u>100.00</u>
Farm-related business			
Acceptable	100.00		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<u>100.00</u>		<u>100.00</u>
Communication			
Acceptable	100.00		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<u>100.00</u>		<u>100.00</u>
Energy			
Acceptable	100.00		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<u>100.00</u>		<u>100.00</u>
Water and waste water			
Acceptable	100.00		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<u>100.00</u>		<u>100.00</u>
Rural residential real estate			
Acceptable	100.00		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<u>100.00</u>		<u>100.00</u>
Agricultural export finance			
Acceptable	100.00		100.00
OAEM	-		-
Substandard/doubtful	-		-
	<u>100.00</u>		<u>100.00</u>
Total loans			
Acceptable	98.86		98.78
OAEM	0.59		0.72
Substandard/doubtful	0.55		0.50
	<u>100.00</u>	%	<u>100.00</u> %

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

March 31, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 3,119,791	\$ 970,357	\$ 4,090,148	\$ 1,089,533,525	\$ 1,093,623,673
Production and intermediate term	74,485	-	74,485	113,955,246	114,029,731
Loans to cooperatives	-	-	-	5,320,169	5,320,169
Processing and marketing	-	-	-	42,282,776	42,282,776
Farm-related business	-	-	-	8,705,854	8,705,854
Communication	-	-	-	22,666,469	22,666,469
Energy	-	-	-	11,930,923	11,930,923
Water and waste water	-	-	-	3,055,217	3,055,217
Rural residential real estate	-	-	-	2,672,979	2,672,979
Agricultural export finance	-	-	-	1,629,227	1,629,227
Total	\$ 3,194,276	\$ 970,357	\$ 4,164,633	\$ 1,301,752,385	\$ 1,305,917,018

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	\$ 4,109,506	\$ 813,428	\$ 4,922,934	\$ 1,079,594,552	\$ 1,084,517,486
Production and intermediate term	451,878	-	451,878	118,105,877	118,557,755
Loans to cooperatives	-	-	-	3,883,200	3,883,200
Processing and marketing	-	-	-	42,114,935	42,114,935
Farm-related business	-	-	-	8,787,247	8,787,247
Communication	-	-	-	22,737,538	22,737,538
Energy	-	-	-	12,112,148	12,112,148
Water and waste water	-	-	-	1,336,396	1,336,396
Rural residential real estate	-	-	-	2,690,312	2,690,312
Agricultural export finance	-	-	-	1,628,643	1,628,643
Total	\$ 4,561,384	\$ 813,428	\$ 5,374,812	\$ 1,292,990,848	\$ 1,298,365,660

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs, and may also reflect a previous direct write-down of the investment.

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings (TDRs) are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of March 31, 2022, the total recorded investment of troubled debt restructured loans was \$932,844, including \$281,293 classified as nonaccrual and \$651,551 classified as accrual, with no specific reserve. There were no commitments to lend funds to borrowers whose loan terms have been modified in a trouble debt restructuring as of March 31, 2022 and December 31, 2021.

There were no troubled debt restructurings occurring during the three months ended March 31, 2022 and 2021, respectively. The balance of loans formally restructured prior to January 1, 2022, was \$946,987. In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The predominant form of concession granted for troubled debt restructuring includes extension of terms and interest rate decreases. Types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2022	December 31, 2021	March 31, 2022	December 31, 2021
Real estate mortgage	\$ 858,359	\$ 874,172	\$ 281,293	\$ 293,825
Production and intermediate term	74,485	72,815	-	-
Total	\$ 932,844	\$ 946,987	\$ 281,293	\$ 293,825

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	March 31, 2022			December 31, 2021		
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 429,364	\$ 435,574	\$ 44,555	\$ 432,024	\$ 438,234	\$ 44,555
Production and intermediate term	-	-	-	-	-	-
Total	\$ 429,364	\$ 435,574	\$ 44,555	\$ 432,024	\$ 438,234	\$ 44,555
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 2,347,511	\$ 2,348,991	\$ -	\$ 2,437,695	\$ 2,438,627	\$ -
Production and intermediate term	73,740	74,500	-	72,326	72,928	-
Total	\$ 2,421,251	\$ 2,423,491	\$ -	\$ 2,510,021	\$ 2,511,555	\$ -
Total impaired loans:						
Real estate mortgage	\$ 2,776,875	\$ 2,784,565	\$ 44,555	\$ 2,869,719	\$ 2,876,861	\$ 44,555
Production and intermediate term	73,740	74,500	-	72,326	72,928	-
Total	\$ 2,850,615	\$ 2,859,065	\$ 44,555	\$ 2,942,045	\$ 2,949,789	\$ 44,555

^a Unpaid principal balance represents the recorded principal balance of the loan.

	For the Quarter & Year Ended March 31, 2022		For the Quarter & Year Ended March 31, 2021	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	\$ 431,059	\$ -	\$ 977,701	\$ -
Production and intermediate term	-	-	-	-
Total	\$ 431,059	\$ -	\$ 977,701	\$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$2,365,429	\$ 7,781	\$ 2,534,851	\$ 98,350
Production and intermediate term	51,610	746	121,756	5,409
Total	\$2,417,039	\$ 8,527	\$ 2,656,607	\$ 103,759
Total impaired loans:				
Real estate mortgage	\$2,796,488	\$ 7,781	\$ 3,512,552	\$ 98,350
Production and intermediate term	51,610	746	121,756	5,409
Total	\$2,848,098	\$ 8,527	\$ 3,634,308	\$ 103,759

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Allowance for Credit Losses:								
Balance at December 31, 2021	\$ 1,278,016	\$ 200,424	\$ 141,102	\$ 14,727	\$ 3,207	\$ 4,223	\$ 1,287	\$ 1,642,986
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	29,900	11,015	(9,536)	175	494	(483)	35	31,601
Other	-	(1,623)	537	(2)	(14)	-	(18)	(1,121)
Balance at March 31, 2022	<u>\$ 1,307,916</u>	<u>\$ 209,816</u>	<u>\$ 132,103</u>	<u>\$ 14,900</u>	<u>\$ 3,687</u>	<u>\$ 3,740</u>	<u>\$ 1,304</u>	<u>\$ 1,673,466</u>
Ending Balance:								
Individually evaluated for impairment	\$ 44,555	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,555
Collectively evaluated for impairment	1,263,361	209,816	132,103	14,900	3,687	3,740	1,304	1,628,910
Balance at March 31, 2022	<u>\$ 1,307,916</u>	<u>\$ 209,816</u>	<u>\$ 132,103</u>	<u>\$ 14,900</u>	<u>\$ 3,687</u>	<u>\$ 3,740</u>	<u>\$ 1,304</u>	<u>\$ 1,673,466</u>
Balance at December 31, 2020	\$ 1,141,229	\$ 138,280	\$ 173,548	\$ 15,295	\$ 15,543	\$ 3,017	\$ -	\$ 1,486,911
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	220,240	1,498	(65,008)	188	(1,340)	1,076	-	156,653
Other	-	316	(375)	35	(1,064)	-	-	(1,088)
Balance at March 31, 2021	<u>\$ 1,361,469</u>	<u>\$ 140,094</u>	<u>\$ 108,165</u>	<u>\$ 15,518</u>	<u>\$ 13,138</u>	<u>\$ 4,092</u>	<u>\$ -</u>	<u>\$ 1,642,476</u>
Ending Balance:								
Individually evaluated for impairment	\$ 151,230	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 151,230
Collectively evaluated for impairment	1,210,239	140,094	108,165	15,518	13,138	4,092	-	1,491,246
Balance at March 31, 2021	<u>\$ 1,361,469</u>	<u>\$ 140,094</u>	<u>\$ 108,165</u>	<u>\$ 15,518</u>	<u>\$ 13,138</u>	<u>\$ 4,092</u>	<u>\$ -</u>	<u>\$ 1,642,476</u>
Recorded Investments in Loans Outstanding:								
Ending Balance at								
March 31, 2022	<u>\$1,093,623,673</u>	<u>\$ 114,029,731</u>	<u>\$ 56,308,799</u>	<u>\$ 22,666,469</u>	<u>\$ 14,986,140</u>	<u>\$2,672,979</u>	<u>\$ 1,629,227</u>	<u>\$1,305,917,018</u>
Individually evaluated for impairment								
	<u>\$ 2,778,889</u>	<u>\$ 74,485</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,853,374</u>
Collectively evaluated for impairment								
	<u>\$1,090,844,784</u>	<u>\$ 113,955,246</u>	<u>\$ 56,308,799</u>	<u>\$ 22,666,469</u>	<u>\$ 14,986,140</u>	<u>\$2,672,979</u>	<u>\$ 1,629,227</u>	<u>\$1,303,063,644</u>
Ending Balance at								
March 31, 2021	<u>\$1,035,980,504</u>	<u>\$ 97,414,037</u>	<u>\$ 45,174,262</u>	<u>\$ 22,608,084</u>	<u>\$ 14,522,399</u>	<u>\$2,654,968</u>	<u>\$ -</u>	<u>\$1,218,354,254</u>
Individually evaluated for impairment								
	<u>\$ 3,529,443</u>	<u>\$ 118,218</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,647,661</u>
Collectively evaluated for impairment								
	<u>\$1,032,451,061</u>	<u>\$ 97,295,819</u>	<u>\$ 45,174,262</u>	<u>\$ 22,608,084</u>	<u>\$ 14,522,399</u>	<u>\$2,654,968</u>	<u>\$ -</u>	<u>\$1,214,706,593</u>

NOTE 4 — CAPITAL:

The association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including	As of
	Capital Conservation Buffers	March 31, 2022
Common equity tier 1 ratio	7.00%	13.68%
Tier 1 capital ratio	8.50%	13.68%
Total capital ratio	10.50%	13.81%
Permanent capital ratio	7.00%	13.69%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	13.50%
UREE leverage ratio	1.50%	8.34%

The details for the amounts used in the calculation of the regulatory capital ratios as of March 31, 2022:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	78,661,035	78,661,035	78,661,035	78,661,035
Paid-in capital	10,238,891	10,238,891	10,238,891	10,238,891
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	5,044,945	5,044,945	5,044,945	5,044,945
Other required member purchased stock held <5 years				
Other required member purchased stock held ≥ 5 years but < 7 years				
Other required member purchased stock held ≥ 7 years				
Allocated equities:				
Allocated equities held <5 years				
Allocated equities held ≥ 5 years but < 7 years				
Allocated equities held ≥ 7	62,452,680	62,452,680	62,452,680	62,452,680
Nonqualified allocated equities not subject to retirement	41,093,410	41,093,410	41,093,410	41,093,410
Non-cumulative perpetual preferred stock				
Other preferred stock subject to certain limitations				
Subordinated debt subject to certain limitation				
Allowance for loan losses and reserve for credit losses subject to certain limitations			1,704,927	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(21,041,637)	(21,041,637)	(21,041,637)	(21,041,637)
Other regulatory required deductions				
	176,449,324	176,449,324	178,154,251	176,449,324
Denominator:				
Risk-adjusted assets excluding allowance	1,311,134,902	1,311,134,902	1,311,134,902	1,311,134,902
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(21,041,637)	(21,041,637)	(21,041,637)	(21,041,637)
Allowance for loan losses				(1,648,807)
	1,290,093,265	1,290,093,265	1,290,093,265	1,288,444,458

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	78,661,035	78,661,035
Paid-in capital	10,238,891	10,238,891
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	5,044,945	-
Other required member purchased stock held <5 years		
Other required member purchased stock held ≥ 5 years but < 7 years		
Other required member purchased stock held ≥7 years		
Allocated equities:		
Allocated equities held <5 years		
Allocated equities held ≥5 years but < 7 years		
Allocated equities held ≥7	62,452,680	-
Nonqualified allocated equities not subject to retirement	41,093,410	41,093,410
Non-cumulative perpetual preferred stock	-	-
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitation		
Allowance for loan losses and reserve for credit losses subject to certain limitations		
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(21,041,637)	(21,041,637)
Other regulatory required deductions	-	-
	<u>176,449,324</u>	<u>108,951,699</u>
Denominator:		
Total Assets	1,330,308,554	1,330,308,554
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier I capital	(23,400,814)	(23,400,814)
	<u>1,306,907,740</u>	<u>1,306,907,740</u>

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the three months ended March 31:

	<u>2022</u>	<u>2021</u>
Accumulated other comprehensive income (loss) at January 1	\$(202,103)	\$(429,264)
Amortization of actuarial (gain) loss included in salaries and employee benefits	<u>(3,375)</u>	<u>(186)</u>
Other comprehensive income (loss), net of tax	<u>(3,375)</u>	<u>(186)</u>
Accumulated other comprehensive income (loss) at March 31	<u>\$(205,478)</u>	<u>\$(429,450)</u>

NOTE 5 — INCOME TAXES:

Southern AgCredit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Southern AgCredit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Southern AgCredit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended March 31, 2022 and 2021, the net accrued tax liability/benefit was \$0.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 to the 2021 Annual Report to Stockholders for a more complete description.

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

<u>March 31, 2022</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets held in nonqualified benefit trusts	225,798	-	-	225,798

<u>December 31, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets held in nonqualified benefit trusts	281,315	-	-	281,315

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

<u>March 31, 2022</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 384,809	\$ 384,809
Other property owned	-	-	-	-

<u>December 31, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 387,468	\$ 387,468
Other property owned	-	-	357,200	357,200

*Represents the fair value of certain loans that were evaluated for impairment under the authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Valuation Techniques

As more fully discussed in Note 14 to the 2021 Annual Report to Stockholders, authoritative 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 association's assets and liabilities. For a more complete description, see Notes to the 2021 Annual Report to Stockholders.

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 the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

	Other Benefits	
	2022	2021
Service cost	\$ 9,950	\$ 11,047
Interest cost	27,575	26,016
Expected return on plan assets	-	-
Amortization of prior service (credits) costs	(3,375)	(3,375)
Amortization of net actuarial (gain) loss	-	3,187
Net periodic benefit cost	<u>\$ 34,150</u>	<u>\$ 36,876</u>

The association's liability for the unfunded accumulated obligation for these benefits at March 31, 2022, was \$3,581,124 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2021, that it expected to contribute \$370,908 to the district's defined benefit pension plan in 2022. As of March 31, 2022, \$92,727 of contributions have been made. The association presently anticipates contributing an additional \$278,181 to fund the defined benefit pension plan in 2022 for a total of \$370,908.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At March 31, 2022, \$94,636,432 of commitments and \$292,928 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. Therefore, the association has recognized an estimated risk loss liability, included on the balance sheet with other liabilities, determined on the same basis as the allowance for loan loss is determined. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 9 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through May 10, 2022 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 10, 2022.