AgHeritage Farm Credit Services, ACA

Quarterly Report
June 30, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgHeritage Farm Credit Services, ACA and its subsidiaries, AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2021 (2021 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2021 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

As we renewed operating loans for the 2022 crop season, we observed that a large majority of our producers realized positive cash flows for 2021. Although input costs are higher for 2022 due to inflation, commodity prices have increased significantly in recent months which should help offset a portion of the increased input costs. We are currently experiencing exceptionally hot and dry weather in much of our territory, which could have a negative impact on crop yields. Given the high inputs costs, if yields are negatively impacted by the current weather conditions, many producers will be challenged to realize positive cash flows. Borrower balance sheets are strong, so we do not expect there to be a material negative impact to credit quality. Real estate values in our area have been increasing.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $2.1 billion at June 30, 2022, an increase of $171.3 million from December 31, 2021. The increase was primarily due to growth in the production and intermediate-term and agribusiness loan portfolios. Contributing to the increase was our purchase of Delta Agricultural Credit Association's loan portfolio on May 1, 2022.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2021. Adversely classified loans decreased to 0.7% of the portfolio at June 30, 2022, from 1.7% of the portfolio at December 31, 2021. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At June 30, 2022, $36.9 million of our loans were substantially guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:		June 30, 2022		December 31, 2021
Loans:				
Nonaccrual	**$**	**1,957**	$	3,712
Accruing restructured		**--**		--
Accruing loans 90 days or more past due		**--**		--
Total risk loans		**1,957**		3,712
Other property owned		**--**		--
Total risk assets	**$**	**1,957**	$	3,712
Total risk loans as a percentage of total loans		**0.1%**		0.2%
Nonaccrual loans as a percentage of total loans		**0.1%**		0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans		**91.1%**		59.0%
Total delinquencies as a percentage of total loans		**0.1%**		0.3%

Note: Accruing loans include accrued interest receivable.

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

The decrease in nonaccrual loans was primarily due to principal paydowns, payoffs, or charge-offs on nonaccrual loans for the six months ended June 30, 2022. Nonaccrual loans remained at an acceptable level at June 30, 2022, and December 31, 2021.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	June 30, 2022	December 31, 2021
Allowance as a percentage of:		
Loans	**0.5%**	0.5%
Nonaccrual loans	**502.4%**	264.6%
Total risk loans	**502.4%**	264.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2022. The increase in the allowance as a percentage of nonaccrual and total risk loans was primarily due to principal paydowns, payoffs, or charge-offs on nonaccrual loans for the six months ended June 30, 2022.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30		2022		2021
Net income	**$**	**20,852**	$	19,307
Return on average assets		**2.0%**		2.1%
Return on average members' equity		**10.5%**		10.7%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the six months ended June 30	2022	2021	Increase (decrease) in net income
Net interest income	$ 26,019	$ 23,283	$ 2,736
Non-interest income	6,137	6,560	(423)
Non-interest expense	11,125	10,149	(976)
Provision for income taxes	179	387	208
Net income	$ 20,852	$ 19,307	$ 1,545

Net Interest Income

Changes in Net Interest Income

(in thousands) For the six months ended June 30	2022 vs 2021
Changes in volume	$ 2,489
Changes in interest rates	112
Changes in nonaccrual income and other	135
Net change	$ 2,736

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on May 31, 2024. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at June 30, 2022, or December 31, 2021.

Total members' equity increased $16.9 million from December 31, 2021, primarily due to net income for the period partially offset by patronage distribution accruals.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 7 in our 2021 Annual Report for a more complete description of these ratios. Effective January 1, 2022, the FCA regulations slightly modified the calculation of the unallocated retained earnings and equivalents leverage ratio to include certain additional deductions. The modification did not have a material impact on this ratio.

Regulatory Capital Requirements and Ratios

As of:	June 30, 2022	December 31, 2021	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	16.1%	16.2%	4.5%	2.5%	7.0%
Tier 1 capital ratio	16.1%	16.2%	6.0%	2.5%	8.5%
Total capital ratio	16.5%	16.7%	8.0%	2.5%	10.5%
Permanent capital ratio	16.2%	16.3%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	17.5%	17.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	17.3%	18.6%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 11 in our 2021 Annual Report.

CERTIFICATION

The undersigned have reviewed the June 30, 2022, Quarterly Report of AgHeritage Farm Credit Services, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Jerry Burkett
Chairperson of the Board
AgHeritage Farm Credit Services, ACA

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

Kenneth L. Sumner
Senior Vice President and Chief Financial Officer
AgHeritage Farm Credit Services, ACA

August 9, 2022

CONSOLIDATED STATEMENTS OF CONDITION

AgHeritage Farm Credit Services, ACA
(in thousands)
(Unaudited)

As of:		June 30, 2022		December 31, 2021
ASSETS				
Loans	**$**	**2,098,562**	$	1,927,312
Allowance for loan losses		**9,832**		9,823
Net loans		**2,088,730**		1,917,489
Investment in AgriBank, FCB		**47,651**		46,626
Investment securities		**203**		315
Accrued interest receivable		**20,599**		24,138
Deferred tax assets, net		**--**		66
Other assets		**17,172**		16,280
Total assets	**$**	**2,174,355**	$	2,004,914
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,750,009**	$	1,595,805
Accrued interest payable		**7,045**		5,726
Deferred tax liabilities, net		**20**		--
Patronage distribution payable		**4,161**		7,000
Other liabilities		**8,294**		8,503
Total liabilities		**1,769,529**		1,617,034
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**3,513**		3,324
Unallocated surplus		**402,503**		385,814
Accumulated other comprehensive loss		**(1,190)**		(1,258)
Total members' equity		**404,826**		387,880
Total liabilities and members' equity	**$**	**2,174,355**	$	2,004,914

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AgHeritage Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2022**	2021	**2022**	2021
Interest income	**$ 20,372**	$ 17,359	**$ 38,692**	$ 34,085
Interest expense	**7,045**	5,417	**12,673**	10,802
Net interest income	**13,327**	11,942	**26,019**	23,283
Provision for credit losses	**--**	--	**--**	--
Net interest income after provision for credit losses	**13,327**	11,942	**26,019**	23,283
Non-interest income				
Patronage income	**2,292**	2,377	**4,240**	4,511
Financially related services income	**19**	23	**34**	37
Fee income	**694**	1,037	**1,626**	2,001
Other non-interest income	**108**	8	**237**	11
Total non-interest income	**3,113**	3,445	**6,137**	6,560
Non-interest expense				
Salaries and employee benefits	**2,791**	2,540	**5,821**	5,356
Other operating expense	**2,929**	2,714	**5,291**	4,766
Other non-interest expense	**3**	24	**13**	27
Total non-interest expense	**5,723**	5,278	**11,125**	10,149
Income before income taxes	**10,717**	10,109	**21,031**	19,694
Provision for income taxes	**99**	206	**179**	387
Net income	**$ 10,618**	$ 9,903	**$ 20,852**	$ 19,307
Other comprehensive income				
Employee benefit plans activity	**$ 27**	$ 37	**$ 68**	$ 73
Total other comprehensive income	**27**	37	**68**	73
Comprehensive income	**$ 10,645**	$ 9,940	**$ 20,920**	$ 19,380

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgHeritage Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2020	$ 3,093	$ 351,796	$ (1,216)	$ 353,673
Net income	--	19,307	--	19,307
Other comprehensive income	--	--	73	73
Unallocated surplus designated for patronage distributions	--	(3,098)	--	(3,098)
Capital stock and participation certificates issued	272	--	--	272
Capital stock and participation certificates retired	(121)	--	--	(121)
Balance at June 30, 2021	$ 3,244	$ 368,005	$ (1,143)	$ 370,106
Balance at December 31, 2021	$ 3,324	$ 385,814	$ (1,258)	$ 387,880
Net income	**--**	**20,852**	**--**	**20,852**
Other comprehensive income	**--**	**--**	**68**	**68**
Unallocated surplus designated for patronage distributions	**--**	**(4,163)**	**--**	**(4,163)**
Capital stock and participation certificates issued	**303**	**--**	**--**	**303**
Capital stock and participation certificates retired	**(114)**	**--**	**--**	**(114)**
Balance at June 30, 2022	**$ 3,513**	**$ 402,503**	**$ (1,190)**	**$ 404,826**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim financial information and conform to generally accepted accounting principles in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the six months ended June 30, 2022, are not necessarily indicative of the results to be expected for the year ending December 31, 2022. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2021 (2021 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of AgHeritage Farm Credit Services, ACA and its subsidiaries AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amended the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We expect to adopt the standard as of January 1, 2023. We have completed development and validation of our model to estimate credit losses for our loan portfolio. Processes and internal controls related to the model and the estimation of credit losses for loans are currently being designed. We are also evaluating the impact of the standard as it relates to our investment portfolio. We are in the process of drafting disclosures and accounting policies. The extent of the impact on our financial statements will depend on economic conditions, forecasts and the composition of our loan and investment portfolios at the time of adoption.
In March 2022, the FASB issued ASU 2022-02 “Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.” The guidance is effective at the same time that ASU 2016-13 is adopted.	This guidance eliminates the accounting guidance for troubled debt restructurings by creditors in Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings.	We intend to adopt the standard concurrently with the adoption of ASU 2016-13 as amended. The adoption of this guidance is not expected to have a material impact on our financial statements, but will modify certain disclosures required under ASU 2016-13.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	June 30, 2022		December 31, 2021	
	Amount	%	Amount	%
Real estate mortgage	**$ 1,149,136**	**54.8%**	$ 1,096,717	56.9%
Production and intermediate-term	**534,908**	**25.5%**	477,736	24.8%
Agribusiness	**340,801**	**16.2%**	286,442	14.9%
Other	**73,717**	**3.5%**	66,417	3.4%
Total	**$ 2,098,562**	**100.0%**	$ 1,927,312	100.0%

The other category is primarily composed of rural infrastructure and rural residential real estate loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of 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
Real estate mortgage	**$ 2,305**	**$ 112**	**$ 2,417**	**$ 1,159,340**	**$ 1,161,757**
Production and intermediate-term	**216**	**16**	**232**	**541,119**	**541,351**
Agribusiness	**--**	**--**	**--**	**342,233**	**342,233**
Other	**70**	**--**	**70**	**73,735**	**73,805**
Total	**$ 2,591**	**$ 128**	**$ 2,719**	**$ 2,116,427**	**$ 2,119,146**

As of December 31, 2021	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	$ 926	$ 1,358	$ 2,284	$ 1,108,672	$ 1,110,956
Production and intermediate-term	2,539	32	2,571	483,875	486,446
Agribusiness	--	--	--	287,530	287,530
Other	186	--	186	66,315	66,501
Total	$ 3,651	$ 1,390	$ 5,041	$ 1,946,392	$ 1,951,433

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at June 30, 2022, or December 31, 2021.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:	**June 30, 2022**	December 31, 2021
Volume with specific allowance	**$ 22**	$ 66
Volume without specific allowance	**1,935**	3,646
Total risk loans	**$ 1,957**	$ 3,712
Total specific allowance	**$ 16**	$ 41
For the six months ended June 30	**2022**	2021
Income on accrual risk loans	**$ --**	$ 1
Income on nonaccrual loans	**351**	216
Total income on risk loans	**$ 351**	$ 217
Average risk loans	**$ 2,298**	$ 10,511

Note: Accruing loans include accrued interest receivable.

We had no material commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30, 2022.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a TDR, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral. There may be modifications made in the normal course of business that would not be considered TDRs.

There were no TDRs that occurred during the six months ended June 30, 2022, or 2021. Additionally, there were no TDRs that defaulted during the six months ended June 30, 2022, or 2021, in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:		June 30, 2022		December 31, 2021
Total TDRs:				
Real estate mortgage	**$**	**1**	$	6
Other		**353**		370
Total TDRs	**$**	**354**	$	376

All TDRs outstanding at June 30, 2022, and December 31, 2021, were in nonaccrual status. There were no material commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2022.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Six months ended June 30		2022		2021
Balance at beginning of period	**$**	**9,823**	$	10,919
Loan recoveries		**39**		5
Loan charge-offs		**(30)**		(1,000)
Balance at end of period	**$**	**9,832**	$	9,924

The "Provision for credit losses" in the Consolidated Statements of Comprehensive Income includes two components; a provision for loan losses and a provision for credit losses on unfunded commitments. For the six months ended June 30, 2022, and 2021, we recorded no provision for loan losses or credit losses. The accrued credit losses on unfunded commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition. Typically, accrued credit losses are relieved and replaced with an allowance for loan loss as the related commitments are funded. As of June 30, 2022, and December 31, 2021, we had $114 thousand of accrued credit losses.

NOTE 3: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

Refer to Note 11 in our 2021 Annual Report for additional detail regarding contingencies and commitments.

NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2021 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2022, or December 31, 2021.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands) **As of June 30, 2022**	Fair Value Measurement Using						Total Fair	
		Level 1		Level 2		Level 3		Value
Impaired loans	**$**	**--**	**$**	**--**	**$**	**6**	**$**	**6**

As of December 31, 2021	Fair Value Measurement Using						Total Fair	
		Level 1		Level 2		Level 3		Value
Impaired loans	$	--	$	--	$	27	$	27

Valuation Techniques

Impaired Loans: Represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 9, 2022, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.