

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

**2022
Quarterly Report
First Quarter**



For the Quarter Ended March 31, 2022

REPORT OF MANAGEMENT

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.



Brett Valentine, Chief Executive Officer

May 6, 2022



Linda Brown, Chairman, Board of Directors

May 6, 2022



Will Fisher, Chief Financial Officer

May 6, 2022

First Quarter 2022 Financial Report

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AG NEW MEXICO, FARM CREDIT SERVICES, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Ag New Mexico, Farm Credit Services, 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 board of directors declared a patronage distribution in the amount of \$700,000 to be distributed to the Association's borrowers. The amount declared was based on the Association's 2021 operating results.

The United States continues to operate under a presidentially declared emergency since March 13, 2020, due to the Coronavirus Disease 2019 (also referred to as COVID-19). The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as food processing, dairy, and beef cattle. The Association has maintained its strong portfolio monitoring and servicing practices and, if appropriate, will evaluate its allowance for loan losses as changes in outlook occur. Capital levels remained adequate to support any adversity or continuing loan demand.

The Consumer Price Index for all urban consumers increased by 7.9 percent for the 12-month period ending February 2022, reflecting the largest 12-month increase since 1982. The largest contributors to the overall increase were rising prices for gasoline, shelter, and food. The Federal Reserve began raising the target federal funds rate by 25 basis points on March 16, 2022 in an attempt to mitigate inflation. According to a March 16 Reuters' article, most policymakers now see the federal funds rate rising to a range of 1.75 percent to 2.0 percent by the end of 2022. The Federal Reserve is also expected to begin shrinking its balance sheet during the second quarter of 2022.

In its March 30, 2022 release, the U.S. Bureau of Economic Analysis estimated that national real GDP increased at an annual rate of 6.9 percent in the fourth quarter of 2021, up from 2.3 percent in the third quarter. The increase in GDP growth during the fourth quarter of 2021 reflected an acceleration in inventory investment, higher than anticipated consumer spending and higher exports and residential fixed investment.

In its March 2022 World Agricultural Supply and Demand Estimates (WASDE), the USDA, in its initial assessment of the Russia/Ukraine Conflict, reported that this conflict has significantly increased the uncertainty of agricultural supply and demand conditions both regionally and globally. Additionally in March 2022, the USDA upwardly revised its average price forecasts for 2022 for corn, soybeans, wheat, and cotton for farmers. After rising less than 3.0 percent in 2021, the USDA also projected an increase in the average price received by farmers for milk by approximately 34.0 percent during 2022. For steer, barrow and gilt and broilers, the USDA projects that average prices will increase by approximately 14.0 percent, 5.5 percent, and 15.1 percent, respectively, during 2022. Lumber prices remain at elevated levels, as strong demand for construction materials persists.

During the first quarter of 2022, the New Mexico agriculture economy remained sound. Moisture and precipitation varied across the state, with most of state considered to be in a drought. The continued dry conditions represent a greater risk of wildfires. Thus far, through April 2022, over 170,000 acres have burned throughout the state of New Mexico.

Loan Portfolio:

Total loans outstanding at March 31, 2022, including nonaccrual loans and sales contracts, were \$335,803,239 compared to \$328,607,772 at December 31, 2021, reflecting an increase of 2.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.6 percent at March 31, 2022 and December 31, 2021.

The Association recorded \$2,590 in recoveries and no charge-offs for the quarter ended March 31, 2022, and no recoveries and no charge-offs for the same period in 2021. The Association's allowance for loan losses was 0.3 percent of total loans outstanding as of March 31, 2022, and December 31, 2021.

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	\$ 1,971,756	89.1%	\$ 1,975,861	89.2%
90 days past due and still accruing interest	239,309	10.8%	236,366	10.7%
Other property owned, net	2,775	0.1%	2,775	0.1%
Total	<u>\$ 2,213,840</u>	<u>100.0%</u>	<u>\$ 2,215,002</u>	<u>100.0%</u>

Results of Operations:

The Association had net income of \$1,144,927 for the three months ended March 31, 2022, as compared to net income of \$1,121,122 for the same period in 2021, reflecting an increase of 2.1 percent. Net interest income was \$1,861,776 for the three months ended March 31, 2022, compared to \$1,714,866 for the same period in 2021.

	Three Months Ended			
	March 31, 2022		March 31, 2021	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 331,575,333	\$ 3,002,193	\$ 297,020,539	\$ 2,770,682
Interest-bearing liabilities	293,560,820	1,140,417	260,144,280	1,055,816
Impact of capital	<u>\$ 38,014,513</u>		<u>\$ 36,876,259</u>	
Net interest income		<u>\$ 1,861,776</u>		<u>\$ 1,714,866</u>
	2022		2021	
	Average Yield		Average Yield	
Yield on loans	3.67%		3.78%	
Cost of interest-bearing liabilities	1.58%		1.65%	
Interest rate spread	2.09%		2.13%	
Net interest income as a percentage of average earning assets	2.28%		2.34%	

	Three months ended:		
	March 31, 2022 vs. March 31, 2021		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 322,334	\$ (90,823)	\$ 231,511
Interest expense	135,955	(51,354)	84,601
Net interest income	<u>\$ 186,379</u>	<u>\$ (39,469)</u>	<u>\$ 146,910</u>

Interest income for the three months ended March 31, 2022, increased by \$231,511, or 8.4 percent, from the same period of 2021, primarily due to an increase in average loan volume slightly offset by a decrease in yields on earning assets. Interest expense for the three months ended March 31, 2022, increased by \$84,601, or 8.0 percent, from the same period of 2021, primarily due to an increase in average debt volume slightly offset by a decrease in interest rates. Average loan volume for the first quarter of 2022 was \$331,575,333, compared to \$297,020,539 in the first quarter of 2021. The average net interest rate spread on the loan portfolio for the first quarter of 2022 was 2.09 percent, compared to 2.13 percent in the first quarter of 2021.

The Association's return on average assets for the three months ended March 31, 2022, was 1.33 percent compared to 1.46 percent for the same period in 2021. The Association's return on average equity for the three months ended March 31, 2022, was 9.12 percent, compared to 9.59 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	\$ 292,275,203	\$ 288,391,354
Accrued interest on note payable	411,050	367,977
Total	<u>\$ 292,686,253</u>	<u>\$ 288,759,331</u>

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$292,275,203 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 1.64 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 the Association's increase in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$40,904,759 at March 31, 2022. The maximum amount the Association may borrow from the Bank as of March 31, 2022, was \$334,311,490 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, 2023, 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 \$1,150,813 at March 31, 2022, compared to December 31, 2021. The Association's debt as a percentage of members' equity was 5.80:1 as of March 31, 2022, compared to 5.83:1 as of December 31, 2021.

Farm Credit Administration regulations require the Association 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:

In January 2021, the FASB issued an update to Reference Rate Reform whereby certain derivative instruments may be modified to change the rate used for margining, discounting, or contract price alignment. An entity may elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments do not apply to contract modifications made or new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022. The Association adopted the guidance in the first quarter of 2021 and the impact was not material to the Association's financial condition or its results of operations.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association applied the optional accounting expedients available under the guidance to debt and derivative contract modifications related to LIBOR transition in the fourth quarter of 2020. The impact of adoption was not material to the Association's financial condition or results of operations. In addition, the Association adopted the optional expedient as it relates to loans during the first quarter of 2021 and the impact of adoption was not material to the Association's financial condition or results of operations.

In December 2019, the FASB issued guidance entitled “Simplifying the Accounting for Income Taxes.” This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements, and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted, and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not impact the Association’s financial condition or its results of operations.

In August 2018, the FASB issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association’s financial condition or its results of operations.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans.” The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance became effective for fiscal years ending after December 15, 2020. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance did not impact the Association’s financial condition or its results of operations, but did impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement.” The guidance modifies the requirements on fair value measurements by removing, modifying, or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted, and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the Association’s financial condition or its results of operations, but did impact the fair value measurements disclosures.

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 institutions. 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 institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association’s financial condition and its results of operations, with planned adoption for interim and reporting periods beginning after December 15, 2022.

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 Ag New Mexico, Farm Credit Services, ACA 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 Ag New Mexico, Farm Credit Services, ACA, 4501 N. Prince St., Clovis, New Mexico, 88101 or calling (575) 762-3828. The annual and quarterly stockholder reports for the Association are also available on its website at www.agnewmexico.com. Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing will.fisher@agnewmexico.com.

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2022 (unaudited)	December 31, 2021
<u>ASSETS</u>		
Loans	\$ 335,803,239	\$ 328,607,772
Less: allowance for loan losses	954,429	931,501
Net loans	<u>334,848,810</u>	<u>327,676,271</u>
Accrued interest receivable	2,669,241	3,663,740
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	8,491,115	8,783,705
Other	925,308	521,203
Deferred taxes, net	410,088	410,088
Other property owned, net	2,775	2,775
Premises and equipment, net	2,406,850	2,481,036
Other assets	684,697	521,950
Total assets	<u><u>\$ 350,438,884</u></u>	<u><u>\$ 344,060,768</u></u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 292,275,203	\$ 288,391,354
Advance conditional payments	2,850,138	441,427
Accrued interest payable	411,050	367,977
Drafts outstanding	22,119	27,028
Patronage distributions payable	700,000	700,000
Other liabilities	2,675,498	3,778,919
Total liabilities	<u>298,934,008</u>	<u>293,706,705</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	411,520	411,220
Unallocated retained earnings	51,588,823	50,443,896
Accumulated other comprehensive loss	(495,467)	(501,053)
Total members' equity	<u>51,504,876</u>	<u>50,354,063</u>
Total liabilities and members' equity	<u><u>\$ 350,438,884</u></u>	<u><u>\$ 344,060,768</u></u>

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended March 31,	
	2022	2021
<u>INTEREST INCOME</u>		
Loans	\$ 3,002,193	\$ 2,770,682
<u>INTEREST EXPENSE</u>		
Note payable to the Farm Credit Bank of Texas	1,140,417	1,055,816
Net interest income	1,861,776	1,714,866
<u>PROVISION FOR (REVERSAL OF) LOAN LOSSES</u>		
Net interest income after provision for (reversal of) loan losses	35,800	(30,881)
	1,825,976	1,745,747
<u>NONINTEREST INCOME</u>		
Income from the Farm Credit Bank of Texas:		
Patronage income	833,500	690,345
Loan fees	32,946	34,589
Financially related services income	-	143
Gain on sale of premises and equipment, net	-	55,991
Other noninterest income	126,466	45,300
Total noninterest income	992,912	826,368
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	925,222	907,651
Directors' expense	42,218	31,881
Purchased services	118,777	98,363
Travel	63,372	55,340
Occupancy and equipment	247,101	109,020
Communications	16,414	20,410
Advertising	8,720	5,896
Public and member relations	9,865	4,076
Supervisory and exam expense	33,359	29,694
Insurance Fund premiums	120,933	107,667
Loss on other property owned, net	134	133
Other noninterest expense	87,846	80,862
Total noninterest expenses	1,673,961	1,450,993
NET INCOME	1,144,927	1,121,122
Other comprehensive income:		
Change in postretirement benefit plans	5,586	5,766
COMPREHENSIVE INCOME	\$ 1,150,513	\$ 1,126,888

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Members' Equity</u>
Balance at December 31, 2020	\$ 447,640	\$ 46,963,846	\$ (479,053)	\$ 46,932,433
Comprehensive income	-	1,121,122	5,766	1,126,888
Capital stock/participation certificates and allocated retained earnings issued	17,370	-	-	17,370
Capital stock/participation certificates and allocated retained earnings retired	(11,635)	-	-	(11,635)
Balance at March 31, 2021	<u>\$ 453,375</u>	<u>\$ 48,084,968</u>	<u>\$ (473,287)</u>	<u>\$ 48,065,056</u>
Balance at December 31, 2021	\$ 411,220	\$ 50,443,896	\$ (501,053)	\$ 50,354,063
Comprehensive income	-	1,144,927	5,586	1,150,513
Capital stock/participation certificates and allocated retained earnings issued	8,100	-	-	8,100
Capital stock/participation certificates and allocated retained earnings retired	(7,800)	-	-	(7,800)
Balance at March 31, 2022	<u>\$ 411,520</u>	<u>\$ 51,588,823</u>	<u>\$ (495,467)</u>	<u>\$ 51,504,876</u>

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves all counties in the state of New Mexico with the exception of San Juan County and the portion of Rio Arriba County lying west of the Continental Divide. The PCA and FLCA subsidiaries are also authorized to operate in Cochran County, Texas. In addition, the Association and Farm Credit Services of New Mexico, ACA have entered into an agreement that allows the Association to make mortgage loans in New Mexico, on a statewide basis, without obtaining territorial approval. 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 January 2021, the FASB issued an update to Reference Rate Reform whereby certain derivative instruments may be modified to change the rate used for margining, discounting, or contract price alignment. An entity may elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments do not apply to contract modifications made or new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022. The Association adopted the guidance in the first quarter of 2021 and the impact was not material to the Association's financial condition or its results of operations.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association applied the optional accounting expedients available under the guidance to debt and derivative contract modifications related to LIBOR transition in the fourth quarter of 2020. The impact of adoption was not material to the Association's financial condition or results of operations. In addition, the Association adopted the optional expedient as it relates to loans during the first quarter of 2021 and the impact of adoption was not material to the Association's financial condition or results of operations.

In December 2019, the FASB issued guidance entitled “Simplifying the Accounting for Income Taxes.” This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements, and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted, and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not impact the Association’s financial condition or its results of operations.

In August 2018, the FASB issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association’s financial condition or its results of operations.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans.” The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance became effective for fiscal years ending after December 15, 2020. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance did not impact the Association’s financial condition or its results of operations, but did impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement.” The guidance modifies the requirements on fair value measurements by removing, modifying, or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted, and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the Association’s financial condition or its results of operations, but did impact the fair value measurements disclosures.

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 institutions. 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 institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association’s financial condition and its results of operations, with planned adoption for interim and reporting periods beginning after December 15, 2022.

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 may have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	March 31, 2022	December 31, 2021
Production agriculture:		
Real estate mortgage	\$ 186,822,882	\$ 173,036,304
Production and intermediate term	58,056,974	67,665,799
Agribusiness:		
Processing and marketing	43,998,809	43,141,373
Farm-related business	20,063,205	18,806,935
Loans to cooperatives	7,983,022	4,985,423
Communication	5,579,919	5,593,740
Energy	3,282,922	4,493,222
Rural residential real estate	3,073,469	3,106,164
International	2,697,428	2,697,276
Water and waste water	2,495,998	3,297,345
Lease receivables	1,748,611	1,784,191
Total	\$ 335,803,239	\$ 328,607,772

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
	Agribusiness	\$ 52,854,529	\$ 13,472,141	\$ -	\$ -	\$ 52,854,529
Real estate mortgage	18,694,589	42,724,931	-	1,665,196	18,694,589	44,390,127
Production and intermediate term	12,385,340	31,382,669	-	-	12,385,340	31,382,669
Communication	5,579,919	-	-	-	5,579,919	-
Energy	3,282,922	-	-	-	3,282,922	-
International	2,697,428	-	-	-	2,697,428	-
Water and waste water	2,495,998	-	-	-	2,495,998	-
Lease receivables	1,748,611	-	-	-	1,748,611	-
Rural residential real estate	-	4,544,128	-	-	-	4,544,128
Total	\$ 99,739,336	\$ 92,123,869	\$ -	\$ 1,665,196	\$ 99,739,336	\$ 93,789,065

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 may be paid by the Association on such balances. Balances of ACPs were \$2,850,138 and \$441,427 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:		
Production and intermediate term	\$ 1,023,104	\$ 1,023,104
Real estate mortgage	737,554	739,510
Rural residential real estate	211,098	213,247
Total nonaccrual loans	<u>1,971,756</u>	<u>1,975,861</u>
Accruing loans 90 days or more past due:		
Production and intermediate term	239,309	236,366
Total accruing loans 90 days or more past due	<u>239,309</u>	<u>236,366</u>
Total nonperforming loans	2,211,065	2,212,227
Other property owned	2,775	2,775
Total nonperforming assets	<u>\$ 2,213,840</u>	<u>\$ 2,215,002</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	98.9	%	98.9	%
OAEM	0.1		0.1	
Substandard/doubtful	1.0		1.0	
	100.0		100.0	
Production and intermediate term				
Acceptable	97.2		97.6	
OAEM	0.7		0.6	
Substandard/doubtful	2.1		1.8	
	100.0		100.0	
Process and marketing				
Acceptable	88.9		92.8	
OAEM	4.1		-	
Substandard/doubtful	7.0		7.2	
	100.0		100.0	
Farm-related business				
Acceptable	100.0		100.0	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.0		100.0	
Loans to cooperatives				
Acceptable	100.0		100.0	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.0		100.0	
Energy				
Acceptable	100.0		55.9	
OAEM	-		-	
Substandard/doubtful	-		44.1	
	100.0		100.0	
Communication				
Acceptable	100.0		100.0	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.0		100.0	
Rural residential real estate				
Acceptable	93.1		93.2	
OAEM	-		-	
Substandard/doubtful	6.9		6.8	
	100.0		100.0	
International				
Acceptable	100.0		100.0	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.0		100.0	
Water and waste water				
Acceptable	100.0		100.0	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.0		100.0	
Lease receivables				
Acceptable	100.0		100.0	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.0		100.0	
Total loans				
Acceptable	97.4		97.3	
OAEM	0.7		0.2	
Substandard/doubtful	1.9		2.5	
	100.0	%	100.0	%

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

<u>March 31, 2022</u>	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	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 1,183,998	\$ 607,734	\$ 1,791,732	\$ 186,765,649	\$ 188,557,381	\$ -
Production and intermediate term	-	1,262,413	1,262,413	57,366,678	58,629,091	239,309
Processing and marketing	-	-	-	44,215,682	44,215,682	-
Farm-related business	-	-	-	20,142,223	20,142,223	-
Loans to cooperatives	-	-	-	7,993,059	7,993,059	-
Communication	-	-	-	5,580,287	5,580,287	-
Energy	-	-	-	3,290,768	3,290,768	-
Rural residential real estate	97,325	211,098	308,423	2,777,258	3,085,681	-
International	-	-	-	2,702,702	2,702,702	-
Water and waste water	-	-	-	2,506,755	2,506,755	-
Lease receivables	-	-	-	1,768,851	1,768,851	-
Total	\$ 1,281,323	\$ 2,081,245	\$ 3,362,568	\$ 335,109,912	\$ 338,472,480	\$ 239,309

<u>December 31, 2021</u>	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	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 1,177,568	\$ 608,700	\$ 1,786,268	\$ 173,915,102	\$ 175,701,370	\$ -
Production and intermediate term	-	1,259,470	1,259,470	67,024,717	68,284,187	236,366
Processing and marketing	-	-	-	43,382,398	43,382,398	-
Farm-related business	-	-	-	18,863,768	18,863,768	-
Loans to cooperatives	-	-	-	4,992,725	4,992,725	-
Communication	-	-	-	5,594,054	5,594,054	-
Energy	-	-	-	4,504,301	4,504,301	-
Rural residential real estate	143,660	213,247	356,907	2,762,084	3,118,991	-
International	-	-	-	2,701,685	2,701,685	-
Water and waste water	-	-	-	3,328,042	3,328,042	-
Lease receivables	-	-	-	1,799,991	1,799,991	-
Total	\$ 1,321,228	\$ 2,081,417	\$ 3,402,645	\$ 328,868,867	\$ 332,271,512	\$ 236,366

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.

The predominant form of concession granted for troubled debt restructuring includes extensions of terms. Other types of modifications include 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 the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

As of March 31, 2022, and December 31, 2021, the Association had no troubled debt restructured loans.

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:						
Production and intermediate term	686,676	695,464	164,308	686,676	695,464	164,308
Total	<u>\$ 686,676</u>	<u>\$ 695,464</u>	<u>\$ 164,308</u>	<u>\$ 686,676</u>	<u>\$ 695,464</u>	<u>\$ 164,308</u>
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 737,554	\$ 737,554	\$ -	\$ 739,510	\$ 739,619	\$ -
Production and intermediate term	575,737	535,364	-	572,794	535,364	-
Rural residential real estate	211,098	211,098	-	213,247	213,247	-
Total	<u>\$ 1,524,389</u>	<u>\$ 1,484,016</u>	<u>\$ -</u>	<u>\$ 1,525,551</u>	<u>\$ 1,488,230</u>	<u>\$ -</u>
Total impaired loans:						
Real estate mortgage	\$ 737,554	\$ 737,554	\$ -	\$ 739,510	\$ 739,619	\$ -
Production and intermediate term	1,262,413	1,230,828	164,308	1,259,470	1,230,828	164,308
Rural residential real estate	211,098	211,098	-	213,247	213,247	-
Total	<u>\$ 2,211,065</u>	<u>\$ 2,179,480</u>	<u>\$ 164,308</u>	<u>\$ 2,212,227</u>	<u>\$ 2,183,694</u>	<u>\$ 164,308</u>

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

	For the Quarter Ended March 31, 2022		For the Quarter 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:				
Production and intermediate term	686,676	-	-	-
Total	<u>\$ 686,676</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 738,771	\$ -	\$ 830,046	\$ 2,535
Production and intermediate term	535,364	2,943	1,023,104	-
Rural residential real estate	211,816	-	223,025	-
Total	<u>\$ 1,485,951</u>	<u>\$ 2,943</u>	<u>\$ 2,076,175</u>	<u>\$ 2,535</u>
Total impaired loans:				
Real estate mortgage	\$ 738,771	\$ -	\$ 830,046	\$ 2,535
Production and intermediate term	1,222,040	2,943	1,023,104	-
Rural residential real estate	211,816	-	223,025	-
Total	<u>\$ 2,172,627</u>	<u>\$ 2,943</u>	<u>\$ 2,076,175</u>	<u>\$ 2,535</u>

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	International	Lease Receivables	Total
Allowance for Credit Losses:										
Balance at December 31, 2021	\$ 99,729	\$ 246,733	\$ 354,498	\$ 3,497	\$ 211,020	\$ 4,524	\$ 7,941	\$ 3,143	\$ 416	\$ 931,501
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	590	2,000	-	-	-	-	-	-	-	2,590
Provision for (reversal of) loan losses	32,226	3,745	45,175	339	(45,780)	(884)	647	290	42	35,800
Other	(2,544)	(1,690)	(7,672)	(74)	(3,172)	(70)	(165)	(66)	(9)	(15,462)
Balance at March 31, 2022	<u>\$ 130,001</u>	<u>\$ 250,788</u>	<u>\$ 392,001</u>	<u>\$ 3,762</u>	<u>\$ 162,068</u>	<u>\$ 3,570</u>	<u>\$ 8,423</u>	<u>\$ 3,367</u>	<u>\$ 449</u>	<u>\$ 954,429</u>
Ending Balance:										
Individually evaluated for impairment	\$ -	\$ 164,308	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 164,308
Collectively evaluated for impairment	130,001	86,480	392,001	3,762	162,068	3,570	8,423	3,367	449	790,121
Balance at March 31, 2022	<u>\$ 130,001</u>	<u>\$ 250,788</u>	<u>\$ 392,001</u>	<u>\$ 3,762</u>	<u>\$ 162,068</u>	<u>\$ 3,570</u>	<u>\$ 8,423</u>	<u>\$ 3,367</u>	<u>\$ 449</u>	<u>\$ 954,429</u>
Balance at December 31, 2020	\$ 131,980	\$ 281,178	\$ 437,180	\$ 8,477	\$ 10,189	\$ 4,812	\$ 16,386	\$ -	\$ 1,292	\$ 891,494
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Provision for (reversal of) loan losses	13,828	(73,993)	(11,746)	5,199	39,512	(387)	(3,106)	-	(188)	(30,881)
Other	1,520	2,163	4,436	143	518	46	138	-	11	8,975
Balance at March 31, 2021	<u>\$ 147,328</u>	<u>\$ 209,348</u>	<u>\$ 429,870</u>	<u>\$ 13,819</u>	<u>\$ 50,219</u>	<u>\$ 4,471</u>	<u>\$ 13,418</u>	<u>\$ -</u>	<u>\$ 1,115</u>	<u>\$ 869,588</u>
Ending Balance:										
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	147,328	209,348	429,870	13,819	50,219	4,471	13,418	-	1,115	869,588
Balance at March 31, 2021	<u>\$ 147,328</u>	<u>\$ 209,348</u>	<u>\$ 429,870</u>	<u>\$ 13,819</u>	<u>\$ 50,219</u>	<u>\$ 4,471</u>	<u>\$ 13,418</u>	<u>\$ -</u>	<u>\$ 1,115</u>	<u>\$ 869,588</u>

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Water and Waste Water	Rural Residential Real Estate	International	Lease Receivables	Total
Recorded Investments in Loans Outstanding:										
Ending Balance at March 31, 2022	\$ 188,557,381	\$ 58,629,091	\$ 72,350,964	\$ 5,580,287	\$ 3,290,768	\$ 2,506,755	\$ 3,085,681	\$ 2,702,702	\$ 1,768,851	\$ 338,472,480
Individually evaluated for impairment	\$ 737,554	\$ 1,262,413	\$ -	\$ -	\$ -	\$ -	\$ 211,098	\$ -	\$ -	\$ 2,211,065
Collectively evaluated for impairment	\$ 187,819,827	\$ 57,366,678	\$ 72,350,964	\$ 5,580,287	\$ 3,290,768	\$ 2,506,755	\$ 2,874,583	\$ 2,702,702	\$ 1,768,851	\$ 336,261,415
Ending Balance at March 31, 2021	\$ 143,412,062	\$ 67,184,038	\$ 72,459,236	\$ 8,019,676	\$ 8,710,963	\$ 3,035,227	\$ 4,774,008	\$ -	\$ 1,980,010	\$ 309,575,220
Individually evaluated for impairment	\$ 1,007,489	\$ 1,023,104	\$ -	\$ -	\$ -	\$ -	\$ 221,160	\$ -	\$ -	\$ 2,251,753
Collectively evaluated for impairment	\$ 142,404,573	\$ 66,160,934	\$ 72,459,236	\$ 8,019,676	\$ 8,710,963	\$ 3,035,227	\$ 4,552,848	\$ -	\$ 1,980,010	\$ 307,323,467

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
Operating lease cost	\$ 23,732	\$ 33,822
Net lease cost	\$ 23,732	\$ 33,822

Other information related to leases was as follows:

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 23,732	\$ 33,822
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	22,254	31,832

Lease term and discount rate are as follows:

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
Weighted average remaining lease term in years		
Operating leases	1.9	1.5
Weighted average discount rate		
Operating leases	2.59%	2.90%

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

	<u>Operating Leases</u>
2022 (excluding the three months ended 3/31/22)	\$ 71,462
2023	80,872
2024	28,553
2025	-
2026	-
Thereafter	-
Total	<u>\$ 180,887</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 Association'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

<u>Risk-adjusted:</u>	<u>Regulatory Requirements Including Capital Conservation Buffers</u>	<u>As of March 31, 2022</u>
Common equity tier 1 ratio	7.00%	12.96%
Tier 1 capital ratio	8.50%	12.96%
Total capital ratio	10.50%	13.26%
Permanent capital ratio	7.00%	13.00%
<u>Non-risk-adjusted:</u>		
Tier 1 leverage ratio	5.00%	12.48%
UREE leverage ratio	1.50%	12.36%

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	50,657,512	50,657,512	50,657,512	50,657,512
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	411,672	411,672	411,672	411,672
Allowance for loan losses and reserve for credit losses subject to certain limitations			977,711	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(8,721,361)	(8,721,361)	(8,721,361)	(8,721,361)
	<u>42,347,823</u>	<u>42,347,823</u>	<u>43,325,534</u>	<u>42,347,823</u>
Denominator:				
Risk-adjusted assets excluding allowance	335,423,057	335,423,057	335,423,057	335,423,057
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(8,721,361)	(8,721,361)	(8,721,361)	(8,721,361)
Allowance for loan losses				(934,349)
	<u>326,701,696</u>	<u>326,701,696</u>	<u>326,701,696</u>	<u>325,767,347</u>

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	50,657,512	50,657,512
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	411,672	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(8,721,361)	(8,721,361)
	<u>42,347,823</u>	<u>41,936,151</u>
Denominator:		
Total Assets	348,447,954	348,447,954
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(9,080,213)	(9,080,213)
	<u>339,367,741</u>	<u>339,367,741</u>

An additional component of equity is accumulated other comprehensive loss, which is reported net of taxes, which is as follows:

	Accumulated Other Comprehensive Loss
March 31, 2022	
Nonpension postretirement benefits	\$ (495,467)
Total	<u>\$ (495,467)</u>
March 31, 2021	
Nonpension postretirement benefits	\$ (473,287)
Total	<u>\$ (473,287)</u>

The Association's accumulated other comprehensive loss relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits and of actuarial 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 loss for the three months ended March 31:

	2022	2021
Accumulated other comprehensive loss at January 1	\$ (501,053)	\$ (479,053)
Amortization of prior service credit included		
in salaries and employee benefits	(1,121)	(1,121)
Amortization of actuarial loss included		
in salaries and employee benefits	6,707	6,887
Other comprehensive income, net of tax	5,586	5,766
Accumulated other comprehensive loss at March 31	<u>\$ (495,467)</u>	<u>\$ (473,287)</u>

NOTE 5 — INCOME TAXES:

Ag New Mexico, Farm Credit Services, 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. Ag New Mexico, Farm Credit Services, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Ag New Mexico, Farm Credit Services, 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.

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 measured at fair value on a nonrecurring basis, which are fair value measurements that are triggered by particular circumstances such as impaired assets, for each of the fair value hierarchy values are summarized below. The Association did not have any liabilities measured at fair value on a nonrecurring basis.

<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*	\$ -	\$ -	\$ 522,368	\$ 522,368
Other property owned	-	-	2,775	2,775
<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*	\$ -	\$ -	\$ 522,368	\$ 522,368
Other property owned	-	-	2,775	2,775

*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	\$ 8,294	\$ 6,322
Interest cost	13,309	11,385
Amortization of prior service credit	(1,121)	(1,121)
Amortization of net actuarial loss	6,707	6,887
Net periodic benefit cost	<u>\$ 27,189</u>	<u>\$ 23,473</u>

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2022, was \$1,719,276 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost are included in the line item "Salaries and employee benefits" 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 \$57,848 to the District's defined benefit pension plan in 2022. As of March 31, 2022, the full contribution has been made. The Association presently does not anticipate additional contributions to fund the defined benefit pension plan in 2022.

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.

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 6, 2022, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 6, 2022.