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*Farm Credit of Central Florida, ACA*  
**FIRST QUARTER 2022**

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**CERTIFICATION**

The undersigned certify that we have reviewed the March 31, 2022 quarterly report of Farm Credit of Central Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and 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.



Reginald T. Holt  
Chief Executive Officer



Anne M. Sullivan  
Chief Financial Officer



David A. Mereness  
Chairman of the Audit committee

May 9, 2022

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*Farm Credit of Central Florida, ACA*

# Report on Internal Control Over Financial Reporting

The Association’s principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association’s Consolidated Financial Statements. For purposes of this report, “internal control over financial reporting” is defined as a process designed by, or under the supervision of the Association’s principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association’s assets that could have a material effect on its Consolidated Financial Statements.

The Association’s management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2022. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the “COSO” criteria.

Based on the assessment performed, the Association’s management concluded that as of March 31, 2022, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association’s management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2022.



Reginald T. Holt  
Chief Executive Officer



Anne M. Sullivan  
Chief Financial Officer

May 9, 2022

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*Farm Credit of Central Florida, ACA*

# Management's Discussion and Analysis of Financial Condition and Results of Operations

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of Farm Credit of Central Florida, ACA, (Association) for the period ended March 31, 2022. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2021 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## **LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including horticulture, fruits/vegetables, citrus, and cattle. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the level of dependency on a given commodity.

### ***March 31, 2022 compared to December 31, 2021***

Loan volume of the Association as of March 31, 2022, was \$733,555, a decrease of \$23,852 as compared to \$757,407 at December 31, 2021. Net loans outstanding at March 31, 2022, were \$730,487 as compared to \$754,340 at December 31, 2021. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between October and December and declines between January and June as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops. The result of this normal seasonal lending activity typically causes net loan volume to decrease on revolving credit lines.

The Association has investment securities that are classified as held to maturity in the amount of \$2,415 at March 31, 2022, as compared to \$2,748 at December 31, 2021. Net loans and investment securities accounted for 97.02 percent of total assets at March 31, 2022, as compared to 95.82 percent of total assets at December 31, 2021.

The Association's total servicing portfolio has increased to \$1,248,690 as compared to \$1,202,853 at December 31, 2021,

due to new money closings exceeding run-off and liquidations during the year.

### ***March 31, 2022 compared to March 31, 2021***

Loan volume of the Association as of March 31, 2022, was \$733,555, an increase of \$83,519 as compared to \$650,036 at March 31, 2021. Net loans outstanding at March 31, 2022, were \$730,487 as compared to \$646,965 at March 31, 2021. The Association has investment securities that are classified as held to maturity in the amount of \$2,415 at March 31, 2022, as compared to \$3,637 at March 31, 2021. Net loans and investment securities accounted for 97.02 percent of total assets at March 31, 2022, as compared to 96.74 percent of total assets at March 31, 2021.

The Association's total servicing portfolio has increased to \$1,248,690 as compared to \$1,094,033 at March 31, 2021, due to new money closings exceeding run-off and liquidations over the past twelve months.

## **ASSET QUALITY AND LOAN LOSS RESERVES**

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has slightly declined from year end and March 31, 2021. A slight increase in substandard assets has caused the decline since December, 2021, and March, 2021. Acceptable and OAEM credit quality as a percentage of total loan portfolio was 99.09% as of March 31, 2022, compared to 99.13% at December 31, 2021 and 99.48% at March 31, 2021. Substandard credit quality was 0.91% as of March 31, 2022, compared to 0.87% at December 31, 2021 and 0.52% at March 31, 2021. The actual substandard asset volume has increased by \$58 from year-end December 31, 2021. Nonaccrual loan volume was \$4,391 at March 31, 2022, compared to \$4,383 at December 31, 2021 and \$5,432 at March 31, 2021, an increase of \$9 and a decrease of \$1,041, respectively. The majority of the loan assets in nonaccrual are in the blueberry industry.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2022, was \$3,068 or 0.42% of total loans compared to \$3,067 or 0.40% of total loans at December 31, 2021, and \$3,071 or 0.47% of total loans at March 31, 2021, and is considered by management to be adequate to cover possible losses. The

allowance for loan loss is broken down between specific reserves assigned to an individual loan and general reserves which are available for the possible losses within the entire portfolio. The current allowance for loan loss at March 31, 2022, contains \$999 in specific reserves and \$2,069 in general reserves, of which \$135 is allocated to the citrus portfolio and \$1,326 is allocated to the nonfarm income and nursery portfolio. The following outlines the allowance for loan loss activity as of March 31, 2022.

Allowance for Loan Losses Activity:	YTD 2022
Balance at beginning of period	\$ 3,067
Charge-offs	(1)
Recoveries	2
Provisions/(Reversals)-General	(3)
Provisions/(Reversals)-Specifics	3
Balance at end of period	<u>\$ 3,068</u>

The slight increase in allowance for loan losses compared to December 2021 was a result of a minor charge-off and recoveries in the cattle and livestock industries. Chargeoffs are funded through the allowance from previous and/or current increases in the provision for loan losses.

## RESULTS OF OPERATIONS

### *For the three months ended March 31, 2022*

Net income for the three months ended March 31, 2022, totaled \$2,943, as compared to \$3,116 for the same period in 2021. The decrease of \$173 for the period is associated directly with decreased loan fees, offset by increased net interest income and increased patronage from other Farm Credit institutions.

Net interest income was \$4,372 for the three months ended March 31, 2022, as compared to \$3,866 for the same period in 2021. The increase is due to higher loan volumes, offset by decreased loan spreads. Investment interest income decreased by \$12 or 70.59% to \$5 from the prior period's \$17 due to decreased investment volume. Loan interest income was \$7,681 as compared to the prior period's \$6,661. The increase of \$1,020 or 15.31% is due to higher loan volume offset by lower borrower rates. Total interest expense was \$3,314 as compared to the prior period's \$2,812. The increase of \$502 is due to increased volume. Net interest income for the three months ending March 31, 2022, is shown in the following table:

Net Interest Income	For the three months ended March 31,			
	2022	2021	\$ change	% change
Investment Interest Income	\$ 5	\$ 17	\$ (12)	(70.59)%
Loan Interest Income	7,681	6,661	1,020	15.31
Total Interest Income	7,686	6,678	1,008	15.09
Total Interest Expense	3,314	2,812	502	17.85
Net Interest Income	<u>\$ 4,372</u>	<u>\$ 3,866</u>	<u>\$ 506</u>	<u>13.09 %</u>

Allowance for loan loss activity for the quarter consisted of no provision or reversal for the period compared to a \$215 reversal of provision for loan losses for the same period prior year. Provisions for loan losses for the three months ending March 31, 2022 are shown in the following table:

Provisions/(Reversals) for Loan Losses	For the three months ended March 31,			
	2022	2021	\$ Change	% change
General Reserves	\$ (3)	\$ (159)	\$ 156	(98.11)%
Specific Reserves	3	(56)	59	(105.36)
Total Provisions/(Reversals)	<u>\$ -</u>	<u>\$ (215)</u>	<u>\$ 215</u>	<u>(100.00)%</u>

Noninterest income for the three months ended March 31, 2022, totaled \$1,905, as compared to \$1,846 for the same period of 2021, an increase of \$59. The increase is primarily the result of increased patronage refunds from other Farm Credit institutions, offset by decreased loan fees. During the first quarter of 2021, the Association recorded \$293 in PPP loan fees. These loan fees were nonrecurring. Noninterest income for the three months ending March 31, 2022, is shown in the following table:

Noninterest Income	For the three months ended March 31,			
	2022	2021	\$ change	% change
Loan fees	\$ 104	\$ 364	\$ (260)	(71.43)%
Fees for financially related services	9	(3)	12	(400.00)
Patronage refunds from other				
Farm Credit Institutions	1,751	1,370	381	27.81
Gains (losses) on sales of rural				
home loans, net	50	32	18	56.25
Gains (losses) on sales of premises				
and equipment, net	-	38	(38)	(100.00)
Gains (losses) on other transactions	(9)	41	(50)	(121.95)
Other noninterest income	-	4	(4)	(100.00)
Total noninterest income	<u>\$ 1,905</u>	<u>\$ 1,846</u>	<u>\$ 59</u>	<u>3.20 %</u>

Noninterest expense for the three months ended March 31, 2022, increased \$523 compared to the same period of 2021, primarily due to increased salaries and employee benefits, increased Insurance Fund premiums, and increased other operating expenses, offset by decreased gains on the sale of other properties owned. The increase in salaries and benefits is primarily due to increased headcount from 2021. Farm Credit System Insurance Corporation (FCSIC) has set the premium to 16 basis points for 2022 (the same as 2021) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans. The increases in other operating expenses are due to increases in training, travel and advertising and public relations due to the Association returning to normal operating conditions after the COVID pandemic. The Association had no other property owned during 2022, as compared to the sale of two properties for a \$164 gain during the first quarter of 2021. Noninterest expense for the three months ending March 31, 2022 is shown in the following table:

Noninterest Expense	For the three months ended March 31,			
	2022	2021	\$ change	% change
Salary and employee benefits	\$ 1,965	\$ 1,790	\$ 175	9.78 %
Occupancy and equipment	244	246	(2)	(0.81)
Insurance Fund Premium	244	209	35	16.75
Purchased services	153	134	19	14.18
Data processing	52	59	(7)	(11.86)
Other operating expenses	676	537	139	25.88
(Gains) losses on other property owned, net	-	(164)	164	(100.00)
Total noninterest expense	\$ 3,334	\$ 2,811	\$ 523	18.61 %

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund

variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2022, was \$601,114 as compared to \$635,922 at December 31, 2021. The decrease is attributable to paydowns on loans being greater than borrowings to fund new loans in the normal course of business.

## CAPITAL RESOURCES

Total members' equity at March 31, 2022, increased to \$130,342 from the December 31, 2021, total of \$127,308. The increase is primarily attributed to the increase in unallocated surplus resulting from net income. Total capital stock and participation certificates were \$1,186 on March 31, 2022, compared to \$1,149 on December 31, 2021. This increase is attributed to the issuance of stock and participation certificates in the normal course of business.

FCA sets minimum regulatory capital requirements with a capital conservation buffer for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2022
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.50%	7.00%	16.73%
Tier 1 Capital	6.0%	2.50%	8.50%	16.73%
Total Capital	8.0%	2.50%	10.50%	17.15%
Permanent Capital Ratio	7.0%	0.0%	7.0%	16.86%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	15.96%
UREE Leverage Ratio	1.5%	0.0%	1.5%	13.59%

\* The capital conservation buffers had a 3 year phase-in period which became fully effective January 1, 2020.

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios.

## REGULATORY MATTERS

On April 14, 2022, the FCA approved a final rule that amends certain regulations to address changes in accounting principles generally accepted in the United States. Such changes reflect the Current Expected Credit Losses (CECL) methodology that will replace the incurred loss methodology upon adoption. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. The regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a

System institution's regulatory capital ratios. In addition, the regulation does not include an exclusion for the CECL day 1 cumulative effective adjustment from the "safe harbor" deemed prior approval provision. The final rule is effective on January 1, 2023.

On August 26, 2021, the FCA issued a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the increased risk posed by HVCRE exposures. The public comment period ended on January 24, 2022.

## FUTURE OF LIBOR

In 2017, the United Kingdom's Financial Conduct Authority (UK FCA), which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021.

On March 5, 2021, ICE Benchmark Administration (IBA) (the entity that is responsible for calculating LIBOR) announced its intention to cease the publication of the one-week and two-month US dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining US dollar LIBOR settings immediately following the LIBOR publication on June 30, 2023. On the same day, the UK FCA announced that the IBA had notified the UK FCA of its intent, among other things, to cease providing certain US dollar LIBOR settings as of June 30, 2023. In its announcement, the UK FCA confirmed that all 35 LIBOR tenors (including with respect to US dollar LIBOR) will be discontinued or declared nonrepresentative as of either: (a) immediately after December 31, 2021 or (b) immediately after June 30, 2023.

The Association has exposure to LIBOR arising from loans made to customers, Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf, and preferred stock issued by the Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

The FCA has issued guidelines with similar guidance as the U.S. prudential regulators but applicable for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure, stop the inflow of new LIBOR volume, and adjust operating processes to implement alternative reference rates.

On December 8, 2021, the FCA issued another informational memorandum to provide additional guidance to Farm Credit System institutions on their transition away from LIBOR. The guidance encourages Farm Credit System institutions to stop entering into new contracts that reference LIBOR as soon as practicable and in any event no later than December 31, 2021. Entering into new LIBOR-referenced contracts after that date would present safety and soundness risk. The guidance also provides clarity on what the FCA considers a new LIBOR-indexed contract; whether purchases of legacy LIBOR-indexed loans and investments are deemed new contracts; limited exceptions for entering into new LIBOR contracts that reduce or hedge risk in legacy LIBOR contracts; and the due diligence and other procedures required before using other benchmark/reference rate alternatives to LIBOR (beyond SOFR), including credit-sensitive alternative rates.

The Association has implemented a LIBOR transition plan and continues to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

On July 26, 2021, the Alternative Reference Rates Committee (ARRC) announced it will recommend the CME Group's forward-looking SOFR term rates. The ARRC's formal recommendation of SOFR term rates is a major milestone and is expected to increase the volume of transactions quoted in SOFR, supporting the implementation of the transition away from LIBOR.

On October 20, 2021, the U.S. prudential regulators issued a joint statement emphasizing the expectation that supervised institutions with LIBOR exposure continue to progress toward an orderly transition away from LIBOR, reiterating that supervised institutions should, with limited exceptions, cease entering into new contracts that use US dollar LIBOR as a reference rate as soon as practicable, but no later than December 31, 2021. They further stated that entering into new contracts, including derivatives, after that date would create safety and soundness risks. The joint statement clarified that entering into such new contracts would include an agreement that (1) creates additional LIBOR disclosure or (2) extends the term of an existing LIBOR contract, but that a draw on an existing agreement that is legally enforceable, e.g., a committed credit facility, would not be a new contract. The joint statement also provided considerations when assessing the appropriateness of alternative reference rates used in lieu of LIBOR and the regulator expectation that new or updated LIBOR contracts include strong and clearly defined fallback rates for when the initial reference rate is discontinued.

The following is a summary of outstanding variable-rate financial instruments tied to LIBOR at March 31, 2022:

<i>(dollars in millions)</i>	Due in 2022	Due in 2023 on or Before 6/30	Due after June 30, 2023	Total
Loans	\$ 6,354	\$ 3,105	\$ 83,889	\$ 93,348
Total Assets	\$ 6,354	\$ 3,105	\$ 83,889	\$ 93,348
Note Payable to AgFirst Farm				
Credit Bank	\$ 5,163	\$ 2,523	\$ 68,170	\$ 75,856
Total Liabilities	\$ 5,163	\$ 2,523	\$ 68,170	\$ 75,856

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after December 31, 2021 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. At December 31, 2021, 100.00 percent of loans maturing after June 30, 2023 contain fallback language.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2021 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the table below.

The following ASU was issued by the Financial Accounting Standards Board (FASB):

Summary of Guidance	Adoption and Potential Financial Statement Impact
<b><i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i></b>	
<ul style="list-style-type: none"> <li>• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets.</li> <li>• Changes the present incurred loss impairment guidance for loans to an expected loss model.</li> <li>• Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>• Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance.</li> <li>• The new guidance is expected to result in a change in allowance for credit losses due to several factors, including:               <ol style="list-style-type: none"> <li>1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,</li> <li>2. An allowance will be established for estimated credit losses on any debt securities,</li> <li>3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.</li> </ol> </li> <li>• The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts, at the adoption date.</li> <li>• The guidance is expected to be adopted January 1, 2023.</li> </ul>

**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-800-533-2773, or writing Anne M. Sullivan, CFO, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802, or accessing the website, [www.farmcreditefl.com](http://www.farmcreditefl.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# Farm Credit Of Central Florida, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2022 <i>(unaudited)</i>	December 31, 2021 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 11	\$ 11
Investments in debt securities:		
Held to maturity (fair value of \$2,389 and \$2,720, respectively)	2,415	2,748
Loans	733,555	757,407
Allowance for loan losses	(3,068)	(3,067)
Net loans	730,487	754,340
Accrued interest receivable	3,581	2,877
Equity investments in other Farm Credit institutions	6,798	6,755
Premises and equipment, net	4,704	4,801
Accounts receivable	2,648	13,760
Other assets	4,782	4,847
Total assets	<b>\$ 755,426</b>	<b>\$ 790,139</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 601,114	\$ 635,922
Accrued interest payable	1,151	1,117
Patronage refunds payable	192	11,761
Accounts payable	1,214	1,469
Other liabilities	21,413	12,562
Total liabilities	<b>625,084</b>	<b>662,831</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Capital stock and participation certificates	1,186	1,149
Retained earnings		
Allocated	19,103	19,103
Unallocated	110,630	107,687
Accumulated other comprehensive income (loss)	(577)	(631)
Total members' equity	<b>130,342</b>	<b>127,308</b>
Total liabilities and members' equity	<b>\$ 755,426</b>	<b>\$ 790,139</b>

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



# Farm Credit Of Central Florida, ACA

## Consolidated Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	<b>For the Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Interest Income</b>		
Loans	\$ 7,681	\$ 6,661
Investments	5	17
Total interest income	7,686	6,678
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	3,314	2,812
Net interest income	4,372	3,866
Provision for (reversal of) allowance for loan losses	—	(215)
Net interest income after provision for (reversal of) allowance for loan losses	4,372	4,081
<b>Noninterest Income</b>		
Loan fees	104	364
Fees for financially related services	9	(3)
Patronage refunds from other Farm Credit institutions	1,751	1,370
Gains (losses) on sales of rural home loans, net	50	32
Gains (losses) on sales of premises and equipment, net	—	38
Gains (losses) on other transactions	(9)	41
Other noninterest income	—	4
Total noninterest income	1,905	1,846
<b>Noninterest Expense</b>		
Salaries and employee benefits	1,965	1,790
Occupancy and equipment	244	246
Insurance Fund premiums	244	209
Purchased services	153	134
Data processing	52	59
Other operating expenses	676	537
(Gains) losses on other property owned, net	—	(164)
Total noninterest expense	3,334	2,811
<b>Net income</b>	<b>\$ 2,943</b>	<b>\$ 3,116</b>
<b>Other comprehensive income net of tax</b>		
Employee benefit plans adjustments	54	53
<b>Comprehensive income</b>	<b>\$ 2,997</b>	<b>\$ 3,169</b>

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

**Farm Credit Of Central Florida, ACA**

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2020	\$ 1,008	\$ 20,380	\$ 98,129	\$ (824)	\$ 118,693
Comprehensive income			3,116	53	3,169
Capital stock/participation certificates issued/(retired), net	21				21
Balance at March 31, 2021	\$ 1,029	\$ 20,380	\$ 101,245	\$ (771)	\$ 121,883
<b>Balance at December 31, 2021</b>	<b>\$ 1,149</b>	<b>\$ 19,103</b>	<b>\$ 107,687</b>	<b>\$ (631)</b>	<b>\$ 127,308</b>
<b>Comprehensive income</b>			<b>2,943</b>	<b>54</b>	<b>2,997</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>37</b>				<b>37</b>
<b>Balance at March 31, 2022</b>	<b>\$ 1,186</b>	<b>\$ 19,103</b>	<b>\$ 110,630</b>	<b>\$ (577)</b>	<b>\$ 130,342</b>

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

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## *Farm Credit of Central Florida, ACA*

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)  
(unaudited)

### **Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements**

#### **Organization**

The accompanying financial statements include the accounts of Farm Credit of Central Florida, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2021, are contained in the 2021 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

#### **Basis of Presentation**

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

#### **Significant Accounting Policies**

The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and

other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

#### **Accounting Standards Updates (ASUs) Issued During the Period and Applicable to the Association**

The following ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent year-end:

- In March 2022, the FASB issued ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. This Update responds to feedback received during the Post Implementation Review process conducted by the FASB related to Topic 326.
  1. Troubled Debt Restructurings (TDRs) by Creditors  
The amendments eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan.
  2. Vintage Disclosures—Gross Writeoffs  
For public business entities, the amendments in this Update require that an entity disclose current period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.

These amendments will be implemented in conjunction with the adoption of ASU 2016-13.

#### **ASUs Pending Effective Date**

For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date through the life of the financial instrument. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

**Accounting Standards Effective During the Period**

There were no changes in the accounting principles applied from the latest Annual Report.

**Note 2 — Loans and Allowance for Loan Losses**

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

	March 31, 2022	December 31, 2021
Real estate mortgage	\$ 473,960	\$ 450,053
Production and intermediate-term	133,439	177,705
Loans to cooperatives	7,552	6,591
Processing and marketing	68,630	76,109
Farm-related business	21,303	21,115
Communication	6,511	4,961
Power and water/waste disposal	1,443	1,442
Rural residential real estate	14,276	12,993
International	6,441	6,438
<b>Total loans</b>	<b>\$ 733,555</b>	<b>\$ 757,407</b>

A substantial portion of the Association’s lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present the principal balance of participation loans at periods ended:

	March 31, 2022							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 24,061	\$ 64,330	\$ —	\$ 32,737	\$ —	\$ —	\$ 24,061	\$ 97,067
Production and intermediate-term	24,272	30,979	11,668	2,450	—	—	35,940	33,429
Loans to cooperatives	7,571	—	—	—	—	—	7,571	—
Processing and marketing	39,417	44,627	535	25,919	—	—	39,952	70,546
Farm-related business	684	—	418	—	—	—	1,102	—
Communication	6,541	—	—	—	—	—	6,541	—
Power and water/waste disposal	1,446	—	—	—	—	—	1,446	—
International	6,446	—	—	—	—	—	6,446	—
<b>Total</b>	<b>\$ 110,438</b>	<b>\$ 139,936</b>	<b>\$ 12,621</b>	<b>\$ 61,106</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 123,059</b>	<b>\$ 201,042</b>

	December 31, 2021							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 24,579	\$ 59,693	\$ -	\$ 32,855	\$ -	\$ -	\$ 24,579	\$ 92,548
Production and intermediate-term	26,787	69,623	17,630	2,450	-	-	44,417	72,073
Loans to cooperatives	6,613	-	-	-	-	-	6,613	-
Processing and marketing	43,327	44,090	406	26,653	-	-	43,733	70,743
Farm-related business	685	-	433	-	-	-	1,118	-
Communication	4,995	-	-	-	-	-	4,995	-
Power and water/waste disposal	1,446	-	-	-	-	-	1,446	-
International	6,446	-	-	-	-	-	6,446	-
Total	\$ 114,878	\$ 173,406	\$ 18,469	\$ 61,958	\$ -	\$ -	\$ 133,347	\$ 235,364

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

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	March 31, 2022	December 31, 2021		March 31, 2022	December 31, 2021
<b>Real estate mortgage:</b>			<b>Communication:</b>		
Acceptable	99.73%	99.75%	Acceptable	100.00%	100.00%
OAEM	0.11	0.08	OAEM	-	-
Substandard/doubtful/loss	0.16	0.17	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Power and water/waste disposal:</b>		
Acceptable	95.32%	96.50%	Acceptable	100.00%	100.00%
OAEM	0.35	0.28	OAEM	-	-
Substandard/doubtful/loss	4.33	3.22	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Loans to cooperatives:</b>			<b>Rural residential real estate:</b>		
Acceptable	100.00%	100.00%	Acceptable	98.39%	98.19%
OAEM	-	-	OAEM	0.57	0.65
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	1.04	1.16
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>International:</b>		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Farm-related business:</b>			<b>Total loans:</b>		
Acceptable	100.00%	100.00%	Acceptable	98.95%	99.00%
OAEM	-	-	OAEM	0.14	0.13
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	0.91	0.87
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>

The following tables provide an aging analysis of the recorded investment of past due loans as of:

	March 31, 2022				
	30 Through 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	\$ 68	\$ 671	\$ 739	\$ 475,890	\$ 476,629
Production and intermediate-term	88	728	816	133,190	134,006
Loans to cooperatives	-	-	-	7,556	7,556
Processing and marketing	-	-	-	68,801	68,801
Farm-related business	-	-	-	21,356	21,356
Communication	-	-	-	6,520	6,520
Power and water/waste disposal	-	-	-	1,446	1,446
Rural residential real estate	31	98	129	14,223	14,352
International	-	-	-	6,456	6,456
Total	\$ 187	\$ 1,497	\$ 1,684	\$ 735,438	\$ 737,122

	December 31, 2021				
	30 Through 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	\$ 360	\$ 1,996	\$ 2,356	\$ 449,788	\$ 452,144
Production and intermediate-term	189	1,504	1,693	176,500	178,193
Loans to cooperatives	—	—	—	6,595	6,595
Processing and marketing	—	—	—	76,263	76,263
Farm-related business	—	—	—	21,176	21,176
Communication	—	—	—	4,962	4,962
Power and water/waste disposal	—	—	—	1,442	1,442
Rural residential real estate	168	16	184	12,858	13,042
International	—	—	—	6,451	6,451
Total	\$ 717	\$ 3,516	\$ 4,233	\$ 756,035	\$ 760,268

Nonperforming assets (including related accrued interest as applicable) and related credit quality statistics at period end were as follows:

	March 31, 2022	December 31, 2021
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 2,510	\$ 2,510
Production and intermediate-term	1,782	1,857
Rural residential real estate	99	16
Total	\$ 4,391	\$ 4,383
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 481	\$ 708
Production and intermediate-term	1,341	1,404
Rural residential real estate	51	135
Total	\$ 1,873	\$ 2,247
<b>Accruing loans 90 days or more past due:</b>		
Total	\$ —	\$ —
Total nonperforming loans	\$ 6,264	\$ 6,630
Other property owned	—	—
Total nonperforming assets	\$ 6,264	\$ 6,630
Nonaccrual loans as a percentage of total loans	0.60%	0.58%
Nonperforming assets as a percentage of total loans and other property owned	0.85%	0.88%
Nonperforming assets as a percentage of capital	4.81%	5.21%

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	March 31, 2022	December 31, 2021
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 2,893	\$ 678
Past due	1,498	3,705
Total	\$ 4,391	\$ 4,383
<b>Impaired accrual loans:</b>		
Restructured	\$ 1,873	\$ 2,247
90 days or more past due	—	—
Total	\$ 1,873	\$ 2,247
Total impaired loans	\$ 6,264	\$ 6,630
Additional commitments to lend	\$ —	\$ —

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

Impaired loans:	March 31, 2022			Three Months Ended March 31, 2022	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 1,585	\$ 1,832	\$ 51	\$ 1,608	\$ 15
Production and intermediate-term	2,826	2,498	918	2,869	27
Rural residential real estate	134	133	29	136	1
Total	\$ 4,545	\$ 4,463	\$ 998	\$ 4,613	\$ 43
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 1,406	\$ 1,637	\$ –	\$ 1,428	\$ 13
Production and intermediate-term	297	957	–	300	3
Rural residential real estate	16	57	–	16	–
Total	\$ 1,719	\$ 2,651	\$ –	\$ 1,744	\$ 16
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 2,991	\$ 3,469	\$ 51	\$ 3,036	\$ 28
Production and intermediate-term	3,123	3,455	918	3,169	30
Rural residential real estate	150	190	29	152	1
Total	\$ 6,264	\$ 7,114	\$ 998	\$ 6,357	\$ 59

Impaired loans:	December 31, 2021			Year Ended December 31, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 1,590	\$ 1,705	\$ 53	\$ 1,900	\$ 136
Production and intermediate-term	2,938	2,513	930	3,511	251
Rural residential real estate	136	134	11	162	12
Total	\$ 4,664	\$ 4,352	\$ 994	\$ 5,573	\$ 399
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 1,628	\$ 1,858	\$ –	\$ 1,946	\$ 139
Production and intermediate-term	323	942	–	385	28
Rural residential real estate	15	58	–	18	1
Total	\$ 1,966	\$ 2,858	\$ –	\$ 2,349	\$ 168
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 3,218	\$ 3,563	\$ 53	\$ 3,846	\$ 275
Production and intermediate-term	3,261	3,455	930	3,896	279
Rural residential real estate	151	192	11	180	13
Total	\$ 6,630	\$ 7,210	\$ 994	\$ 7,922	\$ 567

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

	Real Estate Mortgage	Production and Intermediate -term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
<b>Activity related to the allowance for credit losses:</b>								
Balance at December 31, 2021	\$ 1,033	\$ 1,750	\$ 257	\$ 6	\$ 2	\$ 17	\$ 2	\$ 3,067
Charge-offs	—	—	—	—	—	(1)	—	(1)
Recoveries	2	—	—	—	—	—	—	2
Provision for loan losses	65	(88)	4	—	—	19	—	—
Balance at March 31, 2022	\$ 1,100	\$ 1,662	\$ 261	\$ 6	\$ 2	\$ 35	\$ 2	\$ 3,068
Balance at December 31, 2020	\$ 1,195	\$ 1,775	\$ 258	\$ 20	\$ —	\$ 33	\$ 2	\$ 3,283
Charge-offs	—	(5)	—	—	—	—	—	(5)
Recoveries	6	—	—	—	—	2	—	8
Provision for loan losses	(97)	(73)	(10)	(11)	—	(24)	—	(215)
Balance at March 31, 2021	\$ 1,104	\$ 1,697	\$ 248	\$ 9	\$ —	\$ 11	\$ 2	\$ 3,071
<b>Allowance on loans evaluated for impairment:</b>								
Individually	\$ 51	\$ 918	\$ —	\$ —	\$ —	\$ 29	\$ —	\$ 998
Collectively	1,049	744	261	6	2	6	2	2,070
Balance at March 31, 2022	\$ 1,100	\$ 1,662	\$ 261	\$ 6	\$ 2	\$ 35	\$ 2	\$ 3,068
Individually	\$ 53	\$ 930	\$ —	\$ —	\$ —	\$ 11	\$ —	\$ 994
Collectively	980	820	257	6	2	6	2	2,073
Balance at December 31, 2021	\$ 1,033	\$ 1,750	\$ 257	\$ 6	\$ 2	\$ 17	\$ 2	\$ 3,067
<b>Recorded investment in loans evaluated for impairment:</b>								
Individually	\$ 2,992	\$ 3,169	\$ —	\$ —	\$ —	\$ 149	\$ —	\$ 6,310
Collectively	473,637	130,837	97,713	6,520	1,446	14,203	6,456	730,812
Balance at March 31, 2022	\$ 476,629	\$ 134,006	\$ 97,713	\$ 6,520	\$ 1,446	\$ 14,352	\$ 6,456	\$ 737,122
Individually	\$ 3,219	\$ 3,261	\$ —	\$ —	\$ —	\$ 151	\$ —	\$ 6,631
Collectively	448,925	174,932	104,034	4,962	1,442	12,891	6,451	753,637
Balance at December 31, 2021	\$ 452,144	\$ 178,193	\$ 104,034	\$ 4,962	\$ 1,442	\$ 13,042	\$ 6,451	\$ 760,268

\*Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) 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. There were no new TDRs that occurred during the periods presented.

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2022	December 31, 2021	March 31, 2022	December 31, 2021
Real estate mortgage	\$ 481	\$ 708	\$ —	\$ —
Production and intermediate-term	1,442	1,506	101	102
Rural residential real estate	134	135	83	—
Total loans	\$ 2,057	\$ 2,349	\$ 184	\$ 102
Additional commitments to lend	\$ —	\$ —	—	—

### Note 3 — Investments

#### Investments in Debt Securities

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest

rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.



A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

March 31, 2022					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	\$ 2,415	\$ 5	\$ (31)	\$ 2,389	3.04%

December 31, 2021					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	\$ 2,748	\$ 7	\$ (35)	\$ 2,720	3.09%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

March 31, 2022				
	Amortized Cost	Fair Value	Weighted Average Yield	
In one year or less	\$ —	\$ —	—%	
After one year through five years	19	19	3.14	
After five years through ten years	93	92	2.41	
After ten years	2,303	2,278	3.07	
Total	\$ 2,415	\$ 2,389	3.04%	

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

March 31, 2022				
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	\$ 313	\$ —	\$ 1,363	\$ (31)

December 31, 2021				
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	\$ 2	\$ —	\$ 1,578	\$ (35)

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized

cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

#### **Equity Investments in Other Farm Credit System Institutions**

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 2.33 percent of the issued stock of the Bank as of March 31, 2022 net of any reciprocal investment. As of that date, the Bank's assets totaled \$39.1 billion and shareholders' equity totaled \$2.0 billion. The Bank's earnings were \$113 million for the first three months of 2022. In addition, the Association held investments of \$815 related to other Farm Credit institutions.

## Note 4 — Debt

### Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of

the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

## Note 5 — Members' Equity

### Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)	
	Three Months Ended March 31,	
	2022	2021
<b>Employee Benefit Plans:</b>		
Balance at beginning of period	\$ (631)	\$ (824)
Other comprehensive income before reclassifications	—	—
Amounts reclassified from AOCI	54	53
Net current period other comprehensive income	54	53
Balance at end of period	\$ (577)	\$ (771)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)		
	Three Months Ended March 31,		
	2022	2021	Income Statement Line Item
<b>Defined Benefit Pension Plans:</b>			
Periodic pension costs	\$ (54)	\$ (53)	See Note 7.
Net amounts reclassified	\$ (54)	\$ (53)	

(a) Amounts in parentheses indicate debits to AOCI.

(b) Amounts in parentheses indicate debits to profit/loss.

## Note 6 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be

corroborated, for substantially the full term of the asset or liability.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

		March 31, 2022				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$	808	\$ 808	\$ –	\$ –	\$ 808
Recurring Assets	\$	808	\$ 808	\$ –	\$ –	\$ 808
<b>Liabilities:</b>						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$	3,547	\$ –	\$ –	\$ 3,547	\$ 3,547
Other property owned	–	–	–	–	–	–
Nonrecurring Assets	\$	3,547	\$ –	\$ –	\$ 3,547	\$ 3,547
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$	11	\$ 11	\$ –	\$ –	\$ 11
Investments in debt securities, held-to-maturity	2,415	–	2,389	–	2,389	–
Loans	726,940	–	–	696,358	696,358	–
Other Financial Assets	\$	729,366	\$ 11	\$ 2,389	\$ 6,96,358	\$ 698,758
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$	601,114	\$ –	\$ –	\$ 576,823	\$ 576,823
Other Financial Liabilities	\$	601,114	\$ –	\$ –	\$ 576,823	\$ 576,823
		December 31, 2021				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$	816	\$ 816	\$ –	\$ –	\$ 816
Recurring Assets	\$	816	\$ 816	\$ –	\$ –	\$ 816
<b>Liabilities:</b>						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$	3,670	\$ –	\$ –	\$ 3,670	\$ 3,670
Other property owned	–	–	–	–	–	–
Nonrecurring Assets	\$	3,670	\$ –	\$ –	\$ 3,670	\$ 3,670
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$	11	\$ 11	\$ –	\$ –	\$ 11
Investments in debt securities, held-to-maturity	2,748	–	2,720	–	2,720	–
Loans	750,670	–	–	740,178	740,178	–
Other Financial Assets	\$	753,429	\$ 11	\$ 2,720	\$ 740,178	\$ 742,909
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$	635,922	\$ –	\$ –	\$ 628,756	\$ 628,756
Other Financial Liabilities	\$	635,922	\$ –	\$ –	\$ 628,756	\$ 628,756

### **Uncertainty in Measurements of Fair Value**

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the

instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

### Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics

of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

### Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk-adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

### Note 7 — Employee Benefit Plans

The following is a table of retirement and other postretirement benefit expenses for the Association:

	Three Months Ended March 31,	
	2022	2021
Pension	\$ 191	\$ 302
401(k)	182	168
Other postretirement benefits	51	47
Total	\$ 424	\$ 517

Expenses in the above table are computed using allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2022.

Further details regarding employee benefit plans are contained in the 2021 Annual Report to Shareholders.

### Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the

outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is remote that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

## Note 9 — Leases

### Lessee

The Association leases certain assets, consisting primarily of real estate, transportation and office equipment, under standard industry terms. The contracts are assessed at inception to determine whether a contract is, or contains, a lease.

The components of lease costs were as follows:

	<b>Three Months Ended March 31, 2022</b>	<b>Year Ended December 31, 2021</b>
Operating lease cost	\$ 95	\$ 377
Variable lease cost (costs excluded from lease payments)	28	110
Sublease income	—	—
Lease costs	<u>\$ 123</u>	<u>\$ 487</u>

Other information related to leases was as follows:

	<b>Three Months Ended March 31, 2022</b>	<b>Year Ended December 31, 2021</b>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 101	\$ 395
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ —	\$ 4

Lease term and discount rate for the periods ended were as follows:

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Weighted average remaining lease term in years:		
Operating leases	13.75	14.00
Weighted average discount rate:		
Operating leases	3.09%	3.09%

Maturities of lease liabilities as of period end were as follows:

	<b>Operating Leases March 31, 2022</b>
2022	\$ 303
2023	412
2024	421
2025	430
2026	441
Thereafter	4,502
Total lease payments	<u>6,509</u>
Less: imputed interest	<u>1,261</u>
Total lease liabilities	<u>\$ 5,248</u>

## Note 10 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 9, 2022, which was the date the financial statements were issued.