GreenStone Farm Credit Services, ACA

Quarterly Report
June 30, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

GreenStone Farm Credit Services, ACA
3515 West Road
East Lansing, MI 48823
(800) 968-0061
www.greenstonefcs.com
Kim.Brunner@greenstonefcs.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.AgriBank.com
FinancialReporting@AgriBank.com

FORWARD-LOOKING INFORMATION

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

AGRICULTURAL AND ECONOMIC CONDITIONS

The United States (U.S.) economy's real gross domestic product (GDP) decreased at an annual rate of 0.9% in the second quarter of 2022. That followed a GDP contraction of 1.6% in the first quarter of the year. The readings in 2022 varied significantly from the GDP annualized growth of 6.9% in the fourth quarter of 2021, and 5.7% overall growth for the full 2021 calendar year. The decrease in GDP for the second quarter of 2022 reflected decreases in private inventory investment, residential fixed investment, federal government spending, state and local government spending, and nonresidential fixed investment. These decreases were partially offset by increases in exports and personal consumption expenditures. Imports, which are a subtraction from GDP, increased.

Rising prices across the economy present a potential threat to future economic growth. The U.S. Bureau of Labor Statistics reported the Consumer Price Index (CPI) increased by 1.3% in June, after increasing 1.0% in May. Over the past 12 months, the CPI increased by 9.1%. This annualized CPI growth level is the fastest pace of inflation since November 1981. The June increase was broad-based, with the indexes for gasoline, shelter, and food being the largest contributors. The food index rose 1.0% for the month of June 2022 and is up 10.4% over the past year.

In response to the increase in inflation, the Federal Reserve has launched its most aggressive tightening of monetary policy since 1994. At the May 2022 meeting, the Federal Open Market Committee (FOMC) raised interest rates by 0.50%, followed with a 0.75% increase at the June 2022 meeting, and 0.75% at the July 2022 meeting. In addition to raising interest rates, the Federal Reserve announced it will also begin reducing the size of its $9 trillion balance sheet as another tool in its attempt to tamp down inflation. The Fed will allow some of its bond holdings to mature without reinvesting the proceeds. Specifically, the Federal Reserve will not reinvest proceeds from up to $30 billion of Treasury securities, and $17.5 billion of mortgage-backed securities in the months of June, July, and August. Beginning in September, the monthly amount of uninvested proceeds will increase to $60 billion for Treasuries and $35 billion for mortgage securities. The Federal Reserve is attempting to achieve a "soft landing" for the U.S. economy, by raising interest rates enough to bring down inflation but not too high to cause a recession.

U.S. housing starts fell 2.0% and permits for future building fell 0.6% in June 2022, both at the lowest levels since September 2021. The average contract on a 30-year fixed rate mortgage climbed to nearly 6.0% in June, up from about 3.3% at the start of the year, which has put home purchases out of reach for a growing number of prospective buyers, particularly first-time purchasers. The median price of existing homes has risen 13.4% over the past year to $416 thousand. Despite the higher prices, homes are still selling relatively quickly as properties remained on the market for just 14 days in June, the fewest number of days going back to 2011.

Grain prices increased significantly during the first half of 2022 with corn, soybean, and wheat prices up by approximately 30% to 40%. The Russia-Ukraine conflict and its impact on agricultural supply chains was a major factor in the price movements, along with supply reductions due to inventory drawdowns over the past four years and poor weather patterns during growing seasons in South America, combined with strong demand from China and other large importers. However, prices fell significantly in July, as the price for corn went from $7.78 per bushel (bu.) on July 12, 2022, to $5.76 per bu. on July 21, 2022, and soybeans fell from $16.34 per bu. to $14.21 per bu. over the same period. The strength of the U.S. dollar, which is at 20-year highs, contributed to the prices falling in July. The price of corn fell more significantly than the price of soybeans, primarily due to higher production estimates based on a higher planted and harvested area from the USDA's June 30, 2022 acreage report, compared to prior expectations from the March intended acres.

In June 2022, the USDA lowered their milk production forecasts for 2022 and 2023 based on lower anticipated milk per cow. The all-milk forecast for 2022 is $26.20 per hundredweight (cwt), $0.45 above the May forecast and $7.67 higher than the 2021 average milk price. The all-milk price forecast for 2023 is $23.80 per cwt. Prices paid to producers have been boosted by higher prices for dairy products, most notably butter and nonfat dry milk, due to falling inventory levels. The U.S. dairy herd is not projected to grow significantly over the next year due to rising expenses from increased feed, labor, and heifer costs. U.S. producers are not alone in dealing with increased cost pressures. New Zealand and European Union dairy producers are facing similar challenges which has resulted in reduced milk production from these regions as well.

LOAN PORTFOLIO

Loan Portfolio

Owned loan volume totaled $11.7 billion at June 30, 2022, a $245.0 million increase from December 31, 2021.

Total owned and managed loan volume, including serviced volume on the real estate loans sold to AgriBank, was $11.8 billion at June 30, 2022, a $237.2 million increase from December 31, 2021. Our combined mortgage portfolio increased $363.7 million, or 4.0% from December 31, 2021, while our short-term commercial loan portfolio decreased $126.5 million, or 5.1% from December 31, 2021. When compared to June 30, 2021, owned and managed loan volume is up 10.7%. This increase was driven by growth in all market segments and led by our capital markets and country living segments that have increased 37.5% and 8.4% since June 30, 2021, respectively. Our current volume reflects an asset growth rate year-over-year that is running above our 2022 Business Plan.

Portfolio Credit Quality

The credit quality of our loan portfolio improved slightly during the first six months of 2022. Acceptable loan credit quality, as measured under the Uniform Classification System, was 96.1%, which increased from 95.1% at December 31, 2021. Year-over-year, acceptable credit quality increased 3.2% from 92.9% at June 30, 2021. Portfolio assets criticized as being less than acceptable was comprised of 2.1% other assets especially mentioned (OAEM) and 1.8% adversely classified. OAEM decreased 0.7% and adversely classified decreased 0.3% from December 31, 2021.

Adversely classified loans are identified as having material credit weaknesses which, if left uncorrected, result in a greater than normal risk. Portfolio credit quality is considered when assessing the reasonableness of our allowance for loan losses. Weaker borrowers in our dairy, poultry, and cash crop portfolios were challenged financially during the first six months of 2022.

The resulting level of credit quality, when combined with our earnings and addition to capital surplus, resulted in our adverse assets to regulatory capital ratio of 10.4%, which decreased 2.9% from December 31, 2021.

In certain circumstances, the Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At June 30, 2022, $409.1 million of our loans were substantially guaranteed under these programs. The guaranteed loan volume decreased from $424.4 million at December 31, 2021.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30, 2022**	December 31, 2021
Loans:		
Nonaccrual	**$16,249**	$48,269
Accruing restructured	**2,480**	2,720
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**18,729**	50,989
Acquired property	**792**	1,750
Total risk assets	**$19,521**	$52,739
Total risk loans as a percentage of total loans	**0.2%**	0.4%
Nonaccrual loans as a percentage of total loans	**0.1%**	0.4%
Current nonaccrual loans as a percentage of total nonaccrual loans	**87.3%**	57.6%
Total delinquencies as a percentage of total loans	**0.1%**	0.3%

Note: Accruing loans include accrued interest receivable.

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

Nonaccrual loans decreased from $48.3 million at December 31, 2021, to $16.2 million at June 30, 2022. This decrease was primarily due to a large dairy that was sold during March of 2022. As of June 30, 2022, 26.5% of the nonaccrual loan portfolio was comprised of dairy loans and 23.8% was comprised of cash crop loans.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	**June 30, 2022**	December 31, 2021
Allowance as a percentage of:		
Loans	**0.3%**	0.5%
Nonaccrual loans	**248.0%**	114.1%
Total risk loans	**215.1%**	108.0%

The allowance for loan losses decreased $14.8 million from December 31, 2021, to $40.3 million at June 30, 2022. During the first half of 2022, a reversal of provision for loan losses of $22.1 million along with $7.4 million of net recoveries were recorded. Included in our allowance is additional industry reserves for our dairy portfolio, primarily due to low milk prices during the past several years. The industry reserve for the dairy portfolio decreased from $19.9 million at December 31, 2021, to $7.0 million at June 30, 2022. While the price has increased recently, it is unknown how long these higher prices will last. In addition, expenses have increased substantially, especially feed, fuel, energy, and fertilizer costs for these dairy customers. The overall market conditions, weighing higher prices against increased expenses warranted a reduction but not complete elimination to the industry reserve. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2022.

Under certain circumstances, credit losses may be recorded to establish a reserve on unfunded loan commitments. The “Reversal of provision for credit losses” in the Consolidated Statements of Income for the six months ended June 30, 2022, included a reversal of provision for credit losses on unfunded loan commitments of $3.3 million. The accrued credit losses are recorded in “Other liabilities” in the Consolidated Statements of Condition. There were no accrued credit losses related to unfunded loan commitments at June 30, 2022.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the six months ended June 30	**2022**	2021
Net income	**$150,309**	$129,820
Return on average assets	**2.5%**	2.4%
Return on average members' equity	**14.1%**	13.1%

Changes presented in the profitability information chart relate directly to:

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

Changes in Significant Components of Net Income

(in thousands)

For the six months ended June 30	**2022**	2021	**Increase (decrease) in net income**
Net interest income	**$143,920**	$126,503	**$17,417**
Reversal of provision for credit losses	**25,446**	1,815	**23,631**
Patronage income	**28,666**	28,731	**(65)**
Financially related services income	**7,926**	7,544	**382**
Fee income	**10,473**	22,568	**(12,095)**
Other non-interest income	**686**	530	**156**
Non-interest expense	**(60,812)**	(54,314)	**(6,498)**
Provision for income taxes	**(5,996)**	(3,557)	**(2,439)**
Net income	**$150,309**	$129,820	**$20,489**

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the six months ended June 30	2022 vs 2021
Changes in volume	**$10,612**
Changes in interest rates	**597**
Changes in nonaccrual income and other	**6,208**
Net change	**$17,417**

Reversal of Provision for Credit Losses

In the first six months of 2022, the reversal of provision for credit losses of $25.4 million was primarily due to a large nonaccrual dairy relationship that was sold in March of 2022, along with reductions to the dairy industry reserve. The reversal of provision for credit losses of $1.8 million in the first six months of 2021 was primarily due to a decrease in the dairy industry reserve along with a large nonaccrual dairy relationship that was sold in April of 2021. These 2021 decreases were partially offset by the downgrades of a large dairy relationship and a capital markets relationship during the first half of 2021.

Fee Income

The decrease in fee income was primarily due to less loan conversion fees along with no fees collected from the Small Business Administration for the Paycheck Protection Program loans in the first six months of 2022 compared to 2021.

Non-Interest Expense

The change in non-interest expense from 2022 to 2021 was impacted by an increase in the Farm Credit System insurance expense. The Farm Credit System Insurance Corporation (FCSIC) charged a higher premium rate on accrual loans in 2022 due to recent and expected future growth in the Farm Credit System in 2022. The premium rate for the first half of 2022 was 20 basis points on Association borrowings, which increased from 16 basis points compared to the same period in 2021 resulting in an expense increase of $2.4 million. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

Provision for Income Taxes

The change in provision for income taxes during the first six months of 2022 compared to the first six months of 2021 was primarily due to increased income in the ACA taxable entity.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on December 31, 2023. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

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

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

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

Total members' equity increased $93.5 million from December 31, 2021, primarily due to net income for the period, which was partially offset by patronage distribution accruals.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total regulatory capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 8 in our 2021 Annual Report for a more complete description of these ratios. Effective January 1, 2022, the FCA regulations slightly modified the calculation of the unallocated retained earnings and equivalents leverage ratio to include certain additional deductions. The modification did not have a material impact on this ratio.

Regulatory Capital Requirements and Ratios As of:	**June 30, 2022**	December 31, 2021	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**15.3%**	15.8%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**15.3%**	15.8%	6.0%	2.5%	8.5%
Total regulatory capital ratio	**15.7%**	16.4%	8.0%	2.5%	10.5%
Permanent capital ratio	**15.4%**	15.9%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**16.2%**	16.7%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**15.9%**	18.1%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 12 in our 2021 Annual Report.

OTHER MATTERS

Senior Officers

In June 2022, GreenStone Farm Credit Services, ACA named Travis D. Jones as its next Chief Executive Officer (CEO). Mr. Jones previously served as the Association's Executive Vice President and Chief Financial Officer (CFO) and assumed the CEO role on August 1, 2022, following David B. Armstrong's retirement on July 31, 2022. In July 2022, Kimberly S. Brunner was named as the next Executive Vice President and Chief Financial Officer and assumed the CFO role on August 1, 2022. Ms. Brunner previously served as the Association's Senior Vice President of Finance and Operations.

CERTIFICATION

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

Edward L. Reed
Chair of the Board
GreenStone Farm Credit Services, ACA

Travis D. Jones
Chief Executive Officer
GreenStone Farm Credit Services, ACA

Kimberly S. Brunner
Executive Vice President – Chief Financial Officer
GreenStone Farm Credit Services, ACA

August 8, 2022

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:	**June 30, 2022**	December 31, 2021
ASSETS		
Loans	**$11,737,190**	$11,492,173
Allowance for loan losses	**40,295**	55,056
Net loans	**11,696,895**	11,437,117
Investment in AgriBank, FCB	**294,556**	284,770
Investment securities	**2,135**	2,992
Accrued interest receivable	**61,813**	60,120
Premises and equipment, net	**50,921**	48,083
Other assets	**98,398**	94,396
Total assets	**$12,204,718**	$11,927,478
LIABILITIES		
Note payable to AgriBank, FCB	**$9,861,325**	$9,619,904
Accrued interest payable	**39,365**	31,570
Patronage distribution payable	**57,500**	115,000
Deferred tax liabilities, net	**3,104**	182
Other liabilities	**55,258**	66,120
Total liabilities	**10,016,552**	9,832,776
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Protected members' equity	**1**	1
Capital stock and participation certificates	**25,796**	25,498
Unallocated surplus	**2,165,888**	2,072,939
Accumulated other comprehensive loss	**(3,519)**	(3,736)
Total members' equity	**2,188,166**	2,094,702
Total liabilities and members' equity	**$12,204,718**	$11,927,478

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2022**	2021	**2022**	2021
Interest income	**$113,759**	$94,584	**$215,380**	$188,032
Interest expense	**39,365**	30,495	**71,460**	61,529
Net interest income	**74,394**	64,089	**143,920**	126,503
Reversal of provision for credit losses	**(12,829)**	(10,121)	**(25,446)**	(1,815)
Net interest income after reversal of provision for credit losses	**87,223**	74,210	**169,366**	128,318
Non-interest income				
Patronage income	**15,245**	15,364	**28,666**	28,731
Financially related services income	**2,638**	3,241	**7,926**	7,544
Fee income	**5,962**	8,624	**10,473**	22,568
Other non-interest income	**285**	262	**686**	530
Total non-interest income	**24,130**	27,491	**47,751**	59,373
Non-interest expense				
Salaries and employee benefits	**20,315**	19,015	**40,196**	37,603
Other operating expense	**11,156**	8,328	**20,616**	16,711
Total non-interest expense	**31,471**	27,343	**60,812**	54,314
Income before income taxes	**79,882**	74,358	**156,305**	133,377
Provision for income taxes	**3,394**	2,189	**5,996**	3,557
Net income	**$76,488**	$72,169	**$150,309**	$129,820
Other comprehensive income				
Employee benefit plans activity	**$108**	$83	**$217**	$166
Total other comprehensive income	**108**	83	**217**	166
Comprehensive income	**$76,596**	$72,252	**$150,526**	$129,986

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

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

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2020	$1	$24,553	$1,923,172	($3,182)	$1,944,544
Net income	--	--	129,820	--	129,820
Other comprehensive income	--	--	--	166	166
Unallocated surplus designated for patronage distributions	--	--	(52,457)	--	(52,457)
Capital stock and participation certificates issued	--	1,815	--	--	1,815
Capital stock and participation certificates retired	--	(1,186)	--	--	(1,186)
Balance at June 30, 2021	$1	$25,182	$2,000,535	($3,016)	$2,022,702
Balance at December 31, 2021	$1	$25,498	$2,072,939	($3,736)	$2,094,702
Net income	**--**	**--**	**150,309**	**--**	**150,309**
Other comprehensive income	**--**	**--**	**--**	**217**	**217**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(57,360)**	**--**	**(57,360)**
Capital stock and participation certificates issued	**--**	**1,370**	**--**	**--**	**1,370**
Capital stock and participation certificates retired	**--**	**(1,072)**	**--**	**--**	**(1,072)**
Balance at June 30, 2022	**$1**	**$25,796**	**$2,165,888**	**($3,519)**	**$2,188,166**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

Recently Issued or Adopted Accounting Pronouncements

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

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

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**June 30, 2022**		December 31, 2021	
	Amount	**Percentage**	Amount	Percentage
Real estate mortgage	**$6,684,875**	**57.0%**	$6,662,615	57.9%
Production and intermediate-term	**1,894,140**	**16.1**	2,053,528	17.9
Agribusiness	**2,378,089**	**20.3**	2,078,287	18.1
Other	**780,086**	**6.6**	697,743	6.1
Total	**$11,737,190**	**100.0%**	$11,492,173	100.0%

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

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 30, 2022**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	**$4,496**	**$1,135**	**$5,631**	**$6,720,526**	**$6,726,157**
Production and intermediate-term	**5,892**	**167**	**6,059**	**1,901,511**	**1,907,570**
Agribusiness	**103**	**--**	**103**	**2,383,810**	**2,383,913**
Other	**1,389**	**4**	**1,393**	**779,962**	**781,355**
Total	**$11,880**	**$1,306**	**$13,186**	**$11,785,809**	**$11,798,995**

As of December 31, 2021	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	$26,029	$1,288	$27,317	$6,676,975	$6,704,292
Production and intermediate-term	10,170	1,174	11,344	2,055,196	2,066,540
Agribusiness	131	--	131	2,082,629	2,082,760
Other	1,212	317	1,529	697,163	698,692
Total	$37,542	$2,779	$40,321	$11,511,963	$11,552,284

Note: Accruing loans include accrued interest receivable.

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

Risk Loans

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

Risk Loan Information

(in thousands) As of:	**June 30, 2022**	December 31, 2021
Volume with specific allowance	**$2,948**	$35,972
Volume without specific allowance	**15,781**	15,017
Total risk loans	**$18,729**	$50,989
Total specific allowance	**$630**	$5,423
For the six months ended June 30	**2022**	2021
Income on accrual risk loans	**$65**	$68
Income on nonaccrual loans	**7,522**	1,374
Total income on risk loans	**$7,587**	$1,442
Average risk loans	**$33,942**	$38,119

Note: Accruing loans include accrued interest receivable.

We had $7.5 million of commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30, 2022.

Troubled Debt Restructurings (TDRs)

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

TDR Activity

(in thousands) Six months ended June 30	**2022**		2021	
	Pre-modification	**Post-modification**	Pre-modification	Post-modification
Real estate mortgage	**$1,919**	**$1,919**	$67	$65
Production and intermediate-term	**--**	**--**	67	67
Total	**$1,919**	**$1,919**	$134	$132

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary types of modification included extension of maturity, deferral of principal and interest rate reduction below market.

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

TDRs Outstanding

(in thousands) As of:	**June 30, 2022**	December 31, 2021
Accrual status:		
Real estate mortgage	**$1,893**	$2,082
Production and intermediate-term	**280**	318
Other	**307**	320
Total TDRs in accrual status	**$2,480**	$2,720
Nonaccrual status:		
Real estate mortgage	**$2,632**	$773
Production and intermediate-term	**89**	307
Other	**2**	8
Total TDRs in nonaccrual status	**$2,723**	$1,088
Total TDRs:		
Real estate mortgage	**$4,525**	$2,855
Production and intermediate-term	**369**	625
Other	**309**	328
Total TDRs	**$5,203**	$3,808

There were no commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2022.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Six months ended June 30	**2022**	2021
Balance at beginning of period	**$55,056**	$75,574
Reversal of provision for loan losses	**(22,131)**	(3,133)
Loan recoveries	**7,686**	2,614
Loan charge-offs	**(316)**	(550)
Balance at end of period	**$40,295**	$74,505

The “Reversal of provision for credit losses” in the Consolidated Statements of Comprehensive Income includes a reversal of provision for loan losses as presented in the previous chart, as well as a (reversal of) provision for credit losses on unfunded commitments. The accrued credit losses on unfunded commitments are recorded in “Other liabilities” in the Consolidated Statements of Condition. Typically, accrued credit losses are relieved and replaced with an allowance for loan loss as the related commitments are funded.

Credit Loss Information on Unfunded Commitments

(in thousands) For the six months ended June 30	**2022**	2021
(Reversal of) provision for credit losses	**($3,315)**	$1,318
As of:	**June 30, 2022**	December 31, 2021
Accrued credit losses	**$ --**	$3,315

NOTE 3: CONTINGENCIES AND COMMITMENTS

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

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

Refer to Note 12 in our 2021 Annual Report for additional detail regarding contingencies and commitments.

NOTE 4: FAIR VALUE MEASUREMENTS

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

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

Non-Recurring Basis

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

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of June 30, 2022	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$2,434**	**$2,434**
Acquired property	**--**	**--**	**3,419**	**3,419**

As of December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$32,076	$32,076
Acquired property	--	--	4,585	4,585

Valuation Techniques

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

Acquired Property: Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 8, 2022, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.