# Farm Credit Illinois, 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 Farm Credit Illinois, ACA and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2021 (2021 Annual Report).

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


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## FORWARD-LOOKING INFORMATION

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

## AGRICULTURAL AND ECONOMIC CONDITIONS

The June 10, 2022, United States Department of Agriculture (USDA) World Agricultural Supply and Demand Estimates (WASDE) for corn indicated larger beginning stocks and slightly higher use for increased ending stocks. There was no change in corn area at that time or yield forecasts despite dryer than normal weather. The season-average farm price was unchanged at $6.75 per bushel. Soybean estimates included both lower beginning and ending stocks reflecting increased exports last year. With reduced supplies coming into the new marketing year and no use changes, soybean ending stocks are projected down 30 million bushels and the price forecast was raised $0.30 per bushel to $14.70 per bushel. The June 30, 2022, acreage report showed corn planted area down 4% from 2021, but in line with trade estimates. The soybean acreage estimate was up 1% from 2021, but 2.1 million acres below market expectations and down 2.6 million acres from the March 9, 2022, USDA WASDE report.

According to WeatherTrends360, June 2022 was the seventh warmest and third driest in more than 30 years leading to an expansion of dry to drought conditions in the Corn Belt. By quarter-end the United States Drought Monitor showed an increase in dry to drought conditions climbing by almost 20% to just over 44% of the Midwest region. National Weather Service-Lincoln reports much of Central Illinois was 3 to 4 inches below normal in terms of precipitation along with above normal temperatures. Isolated pockets saw heavy rainfall but in general the lack of precipitation has led to abnormally dry to moderate drought conditions in much of our territory.

The July 5, 2022, Illinois Crop Progress and Conditions ratings showed both corn and soybeans behind normal progress after delayed planting in the spring. Corn silking was at 4% compared to a 5-year average of 17% and soybeans blooming were 9% versus a 5-year average of 21%. Despite abnormally dry June weather, crop ratings were relatively good with corn rated 65% good-to-excellent and soybeans at 62% good-to-excellent, both nearly the same as ratings from the same time in 2021.

Russia's naval blockade of Ukraine's Black Sea ports has prevented the exportation of about 20 million tons of harvested Ukrainian grain. Negotiations are ongoing to unblock crop exports with conflicting reports on when or if this may occur. Ukrainian production is projected to be slightly better than expected, but still well below 2021 levels.

An end to the Ukraine conflict could soften both commodity prices and input costs, but many economists expect both commodity prices and input costs to remain elevated through 2023 due to economic instability from a host of other issues. Input prices were slightly lower at the end of the quarter but still historically high. Rising fuel prices are also impacting farmers with gasoline prices setting a new high at $5.01 per gallon in June 2022, up $1.94 or 63% per gallon from the same week in June 2021. Diesel prices rose to $5.72 per gallon in June 2022, up $2.43 or 74% per gallon compared to June 2021. Given commodity price volatility, high input and fuel prices and continued supply chain issues/availability, many farmers are concerned about a cost/price squeeze in 2023.

The 2022 benchmark study is still being completed. An unofficial update was completed as of January 1, 2022, with an overall increase of 22% from the July 2021 study. Full results are not in, but the trend continues to show strong land values. During a very active first quarter of 2022, land values in many areas continued to increase from the January level. The strongest markets are in the central and northern portions of our territory with a few markets in the southern area that showed strong increases.

Inflation measures are running at or near the fastest pace in four decades. The Consumer Price Index measure was up by 9.1% over the year through June 2022. The U.S. Federal Reserve raised interest rates by 0.75 percentage points in June 2022, its first move of that size since 1994. Officials have said they want to lift rates to the point that they begin to weigh on economic growth. The June 2022 increase brought the target rate to a range of 1.50% to 1.75%, they estimate the number may ultimately need to be 2.5% or higher where they were near-zero at the start of 2022. This will impact our members operating expenses and long-term borrowing costs.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were $4.8 billion at June 30, 2022, a decrease of $13.4 million from December 31, 2021.

### Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2021. Adversely classified loans decreased to 1.1% of the portfolio at June 30, 2022, from 1.9% of the portfolio at December 31, 2021. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At June 30, 2022, $166.8 million of our loans were substantially guaranteed under these government programs.

### Risk Assets

**Components of Risk Assets**

| (dollars in thousands)<br>As of: | **June 30,<br>2022** | December 31,<br>2021 |
|---|---|---|
| Loans: | | |
| Nonaccrual | **$ 612** | $ 3,630 |
| Accruing restructured | **--** | -- |
| Accruing loans 90 days or more past due | **481** | 62 |
| Total risk loans | **1,093** | 3,692 |
| Other property owned | **--** | -- |
| Total risk assets | **$ 1,093** | $ 3,692 |
| Total risk loans as a percentage of total loans | **0.0%** | 0.1% |
| Nonaccrual loans as a percentage of total loans | **0.0%** | 0.1% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **73.5%** | 87.9% |
| Total delinquencies as a percentage of total loans | **0.1%** | 0.1% |

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2021, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines. The decrease in nonaccrual loans was primarily due to one nonaccrual customer being reinstated to accrual status. Nonaccrual loans remained at an acceptable level at June 30, 2022, and December 31, 2021.

Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

## 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 | **0.2%** | 0.2% |
| Nonaccrual loans | **1210.9%** | 213.0% |
| Total risk loans | **678.0%** | 209.4% |

The allowance as a percentage of nonaccruals has increased from December 31, 2021, due to one nonaccrual customer being reinstated to accrual status in the second quarter of 2022. Nonaccrual loans decreased from $3.6 million as of December 31, 2021, to $612 thousand as of June 30, 2022 while the Allowance for loan losses decreased slightly from $7.7 million as of December 31, 2021, to $7.4 million as of June 30, 2022. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2022.

## RESULTS OF OPERATIONS

**Profitability Information**

| (dollars in thousands)<br>For the six months ended June 30 | **2022** | 2021 |
|---|---|---|
| Net income | **$ 40,803** | $ 46,018 |
| Return on average assets | **1.6%** | 2.0% |
| Return on average members' equity | **7.2%** | 8.5% |

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)<br>For the six months ended June 30 | **2022** | 2021 | **Increase (decrease) in net income** |
|---|---|---|---|
| Net interest income | **$ 56,509** | $ 51,172 | **$ 5,337** |
| (Reversal of) provision for loan losses | **(376)** | 351 | **727** |
| Non-interest income | **21,919** | 27,927 | **(6,008)** |
| Non-interest expense | **38,003** | 32,733 | **(5,270)** |
| Benefit from income taxes | **(2)** | (3) | **(1)** |
| Net income | **$ 40,803** | $ 46,018 | **$ (5,215)** |

## Net Interest Income

**Changes in Net Interest Income**

| (in thousands)<br>For the six months ended June 30 | **2022 vs 2021** |
|---|---|
| Changes in volume | **$ 4,153** |
| Changes in interest rates | **1,188** |
| Changes in nonaccrual income and other | **(4)** |
| Net change | **$ 5,337** |

## Non-Interest Income

The change in non-interest income was primarily due to a decrease in fee and patronage income.

**Fee Income**: The decrease in fee income was primarily due to the end of the Paycheck Protection Program in which no fees were collected in 2022.

**Patronage Income:** We may receive patronage from AgriBank and other Farm Credit institutions. Patronage distributions from AgriBank and other Farm Credit institutions are declared solely at the discretion of each institution's Board of Directors. AgriBank may distribute patronage in the form of cash or stock. All other patronage from other Farm Credit institutions is typically distributed in cash.

**Patronage Income**

| (in thousands)<br>For the six months ended June 30 | **2022** | 2021 |
|---|---|---|
| Patronage from AgriBank | **$ 13,548** | $ 14,372 |
| AgDirect partnership distribution | **1,204** | 715 |
| Other patronage | **198** | 127 |
| Total patronage income | **$ 14,950** | $ 15,214 |

Patronage from AgriBank primarily includes wholesale patronage and pool program patronage.

## Non-Interest Expense

The change in non-interest expense was primarily related to an increase in salaries and employee benefits, Farm Credit System insurance, purchased services, and depreciation and maintenance expenses.

**Salaries and Employee Benefits:** The increase was a result of an increase in employee count and incentive compensation expense accrued.

**Farm Credit System Insurance:** The Farm Credit System insurance expense increased in 2022 primarily due to a higher premium rate charged by the Farm Credit System Insurance Corporation (FCSIC) on accrual loans. The premium rate, which is primarily impacted by System growth, was increased from 16 basis points to 20 basis points during June of 2022. The change was applied retroactively to all of calendar year 2022. The premium rate for 2021 was 16 basis points. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

**Purchased Services:** The increase in purchased services was primarily due to various consulting engagements conducted in 2022 in addition to an increase in expenses billed by our technology provider.

**Depreciation and Maintenance:** The increase in depreciation and maintenance expenses was primarily due to additional software and licensing costs associated with the loan origination software conversion that took place in fall 2021.

## 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 July 31, 2024. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus. At June 30, 2022, gross loans are funded 81.8% by the direct note and 18.2% by unallocated surplus.

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 $41.0 million from December 31, 2021, primarily due to net income for the period.

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

**Regulatory Capital Requirements and Ratios**

| As of: | **June 30, 2022** | December 31, 2021 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk-adjusted: | | | | | |
| Common equity tier 1 ratio | **18.3%** | 19.4% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **18.3%** | 19.4% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | **18.4%** | 19.5% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **18.3%** | 19.4% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | **19.9%** | 20.9% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **19.8%** | 22.7% | 1.5% | N/A | 1.5% |

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

## CERTIFICATION

The undersigned have reviewed the June 30, 2022, Quarterly Report of Farm Credit Illinois, 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.

David Haase
Chairperson of the Board
Farm Credit Illinois, ACA

Aaron S. Johnson
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Hunt
Senior Vice President and Chief Financial Officer
Farm Credit Illinois, ACA

August 9, 2022

# CONSOLIDATED STATEMENTS OF CONDITION

*Farm Credit Illinois, ACA*
*(in thousands)*
*(Unaudited)*

| As of: | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Loans | **$** | **4,809,815** | $ | 4,823,197 |
| Allowance for loan losses | | **7,411** | | 7,732 |
| Net loans | | **4,802,404** | | 4,815,465 |
| Investment in AgriBank, FCB | | **145,034** | | 142,574 |
| Investment securities | | **38,995** | | 40,547 |
| Accrued interest receivable | | **43,506** | | 49,585 |
| Other assets | | **92,755** | | 87,995 |
| Total assets | **$** | **5,122,694** | $ | 5,136,166 |
| **LIABILITIES** | | | | |
| Note payable to AgriBank, FCB | **$** | **3,932,783** | $ | 3,954,673 |
| Accrued interest payable | | **15,418** | | 11,535 |
| Patronage distribution payable | | **1,043** | | 42,975 |
| Other liabilities | | **24,957** | | 19,467 |
| Total liabilities | | **3,974,201** | | 4,028,650 |
| Contingencies and commitments (Note 4) | | | | |
| **MEMBERS' EQUITY** | | | | |
| Capital stock and participation certificates | | **7,911** | | 7,878 |
| Unallocated surplus | | **1,142,175** | | 1,101,372 |
| Accumulated other comprehensive loss | | **(1,593)** | | (1,734) |
| Total members' equity | | **1,148,493** | | 1,107,516 |
| Total liabilities and members' equity | **$** | **5,122,694** | $ | 5,136,166 |

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*Farm Credit Illinois, ACA*
*(in thousands)*
*(Unaudited)*

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| *For the period ended June 30* | **2022** | 2021 | **2022** | 2021 |
| **Interest income** | **$ 44,389** | $ 36,813 | **$ 84,147** | $ 72,881 |
| **Interest expense** | **15,418** | 10,830 | **27,638** | 21,709 |
| Net interest income | **28,971** | 25,983 | **56,509** | 51,172 |
| **Provision for (reversal of) loan losses** | **112** | (172) | **(376)** | 351 |
| Net interest income after provision for (reversal of) loan losses | **28,859** | 26,155 | **56,885** | 50,821 |
| **Non-interest income** | | | | |
| Patronage income | **7,851** | 7,994 | **14,950** | 15,214 |
| Financially related services income | **2,026** | 2,098 | **4,102** | 4,111 |
| Fee income | **1,188** | 2,389 | **2,123** | 7,339 |
| Other non-interest income | **359** | 827 | **744** | 1,263 |
| Total non-interest income | **11,424** | 13,308 | **21,919** | 27,927 |
| **Non-interest expense** | | | | |
| Salaries and employee benefits | **9,864** | 8,813 | **19,693** | 17,793 |
| Other operating expense | **9,393** | 7,670 | **18,215** | 14,940 |
| Other non-interest expense | **95** | -- | **95** | -- |
| Total non-interest expense | **19,352** | 16,483 | **38,003** | 32,733 |
| Income before income taxes | **20,931** | 22,980 | **40,801** | 46,015 |
| **Benefit from income taxes** | **--** | (3) | **(2)** | (3) |
| Net income | **$ 20,931** | $ 22,983 | **$ 40,803** | $ 46,018 |
| **Other comprehensive income** | | | | |
| Employee benefit plans activity | **$ 69** | $ 39 | **$ 141** | $ 78 |
| Total other comprehensive income | **69** | 39 | **141** | 78 |
| Comprehensive income | **$ 21,000** | $ 23,022 | **$ 40,944** | $ 46,096 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*Farm Credit Illinois, ACA*
*(in thousands)*
*(Unaudited)*

| | Capital Stock and Participation Certificates | Unallocated Surplus | Accumulated Other Comprehensive Loss | Total Members' Equity |
|---|---|---|---|---|
| Balance at December 31, 2020 | $ 7,656 | $ 1,056,955 | $ (1,377) | $ 1,063,234 |
| Net income | -- | 46,018 | -- | 46,018 |
| Other comprehensive income | -- | -- | 78 | 78 |
| Unallocated surplus designated for patronage distributions | -- | (11) | -- | (11) |
| Capital stock and participation certificates issued | 403 | -- | -- | 403 |
| Capital stock and participation certificates retired | (320) | -- | -- | (320) |
| Balance at June 30, 2021 | $ 7,739 | $ 1,102,962 | $ (1,299) | $ 1,109,402 |
| Balance at December 31, 2021 | $ 7,878 | $ 1,101,372 | $ (1,734) | $ 1,107,516 |
| Net income | **--** | **40,803** | **--** | **40,803** |
| Other comprehensive income | **--** | **--** | **141** | **141** |
| Capital stock and participation certificates issued | **308** | **--** | **--** | **308** |
| Capital stock and participation certificates retired | **(275)** | **--** | **--** | **(275)** |
| **Balance at June 30, 2022** | **$ 7,911** | **$ 1,142,175** | **$ (1,593)** | **$ 1,148,493** |

*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 Farm Credit Illinois, ACA and its subsidiaries Farm Credit Illinois, FLCA and Farm Credit Illinois, 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 | % | | Amount | % |
| Real estate mortgage | **$** | **2,701,335** | **56.2%** | $ | 2,704,486 | 56.1% |
| Production and intermediate-term | | **555,830** | **11.6%** | | 773,774 | 16.0% |
| Agribusiness | | **1,172,118** | **24.4%** | | 996,237 | 20.7% |
| Other | | **380,532** | **7.8%** | | 348,700 | 7.2% |
| Total | **$** | **4,809,815** | **100.0%** | $ | 4,823,197 | 100.0% |

The other category is primarily composed of rural infrastructure and agricultural export finance related loans and certain assets characterized as mission related investments.

## Delinquency

**Aging Analysis of Loans**

| (in thousands)<br>**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 | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | **$ 1,794** | **$ 549** | **$ 2,343** | **$ 2,732,032** | **$ 2,734,375** | **$ 481** |
| Production and intermediate-term | **1,152** | **--** | **1,152** | **560,326** | **561,478** | **--** |
| Agribusiness | **504** | **--** | **504** | **1,175,724** | **1,176,228** | **--** |
| Other | **--** | **--** | **--** | **381,013** | **381,013** | **--** |
| Total | **$ 3,450** | **$ 549** | **$ 3,999** | **$ 4,849,095** | **$ 4,853,094** | **$ 481** |

| 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 | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 2,764 | $ 484 | $ 3,248 | $ 2,737,096 | $ 2,740,344 | $ 62 |
| Production and intermediate-term | 1,194 | 14 | 1,208 | 782,701 | 783,909 | -- |
| Agribusiness | -- | -- | -- | 999,166 | 999,166 | -- |
| Other | -- | -- | -- | 349,138 | 349,138 | -- |
| Total | $ 3,958 | $ 498 | $ 4,456 | $ 4,868,101 | $ 4,872,557 | $ 62 |

Note: Accruing loans include accrued interest receivable.

## 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)<br>As of: | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Volume with specific allowance | **$ 94** | $ 3,082 |
| Volume without specific allowance | **999** | 610 |
| Total risk loans | **$ 1,093** | $ 3,692 |
| Total specific allowance | **$ 6** | $ 1,041 |
| For the six months ended June 30 | **2022** | 2021 |
| Income on accrual risk loans | **$ 5** | $ 25 |
| Income on nonaccrual loans | **94** | 98 |
| Total income on risk loans | **$ 99** | $ 123 |
| Average risk loans | **$ 2,866** | $ 4,797 |

Note: Accruing loans include accrued interest receivable.

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

## Troubled Debt Restructurings (TDRs)

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

There were no TDRs that occurred during the six months ended June 30, 2022, or 2021. In addition, 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)<br>As of: | | **June 30,<br>2022** | | December 31,<br>2021 |
|---|---|---|---|---|
| Nonaccrual status: | | | | |
| Real estate mortgage | **$** | **171** | $ | 505 |
| Production and intermediate-term | | **--** | | 21 |
| Total TDRs in nonaccrual status | **$** | **171** | $ | 526 |

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)<br>Six months ended June 30 | | **2022** | | 2021 |
|---|---|---|---|---|
| Balance at beginning of period | **$** | **7,732** | $ | 6,237 |
| (Reversal of) provision for loan losses | | **(376)** | | 351 |
| Loan recoveries | | **71** | | 5 |
| Loan charge-offs | | **(16)** | | (3) |
| Balance at end of period | **$** | **7,411** | $ | 6,590 |

## NOTE 3: INVESTMENT SECURITIES

We held investment securities of $39.0 million at June 30, 2022, and $40.5 million at December 31, 2021. Our investment securities consisted of securities containing loans guaranteed by the Small Business Administration (SBA). All of our investment securities were fully guaranteed by the SBA at June 30, 2022, and December 31, 2021. Premiums paid to purchase the investment are not guaranteed and are amortized as a reduction of interest income.

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. No investments within the portfolio were impaired at June 30, 2022, or December 31, 2021.

Our investments are asset-backed securities, which are generally shorter-term investments.

**Additional Investment Securities Information**

| (dollars in thousands)<br>As of: | | **June 30,<br>2022** | | December 31,<br>2021 |
|---|---|---|---|---|
| Amortized cost | **$** | **38,995** | $ | 40,547 |
| Unrealized gains | | **156** | | 90 |
| Unrealized losses | | **(473)** | | (353) |
| Fair value | **$** | **38,678** | $ | 40,284 |
| Weighted average yield | | **1.1%** | | 1.4% |

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $211 thousand and $358 thousand for the six months ended June 30, 2022, and 2021, respectively.

**Contractual Maturities of Investment Securities**

| (in thousands)<br>**As of June 30, 2022** | | Amortized Cost |
|---|---|---|
| Five to ten years | | **25,868** |
| More than ten years | | **13,127** |
| Total | **$** | **38,995** |

Actual maturity of the investment securities may be less than contractual maturity due to prepayments.

## NOTE 4: CONTINGENCIES AND COMMITMENTS

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

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

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

## NOTE 5: 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 | **$ --** | **$ --** | **$ 92** | **$ 92** |

| As of December 31, 2021 | Fair Value Measurement Using | | | Total Fair |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value |
| Impaired loans | $ -- | $ -- | $ 2,143 | $ 2,143 |

### Valuation Techniques

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

## NOTE 6: SUBSEQUENT EVENTS

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