AgCountry 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 AgCountry Farm Credit Services, ACA and its subsidiaries, AgCountry Farm Credit Services, FLCA and AgCountry 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:

AgCountry Farm Credit Services, ACA
Post Office Box 6020
Fargo, ND 58108-6020
(855) 402-7849
www.agcountry.com

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

MERGER ACTIVITY

The merger between AgCountry Farm Credit Services, ACA (AgCountry) and Farm Credit Services of North Dakota, ACA (FCS ND) was effective January 1, 2022. The merged entity, AgCountry Farm Credit Services, ACA, is headquartered in Fargo, ND. The merged entity now serves over 25,000 customers in 82 counties in Minnesota, North Dakota, and Wisconsin, and has assets over $11.5 billion.

The effects of the merger with FCS ND are included in our financial position, results of operations, equity, and related metrics beginning January 1, 2022. Prior year results have not been restated to reflect the impact of the merger. Upon the closing of the merger, assets increased by $1.5 billion (including loans of $1.4 billion), liabilities increased by $1.1 billion, and members' equity increased by $359.6 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations.

The capital stock and participation certificates acquired from FCS ND are included within members' equity on the Consolidated Statements of Condition. Prior to June 30, 2022, FCS ND stock was transitioned to accounts receivable stock, consistent with our current policy. A contra receivable for the stock was established and included in the line item titled "Capital stock and participation certificates receivable". This change had no impact on the capital stock or participation certificates owned by the borrowers, and borrowers retain all rights afforded to them by the Farm Credit Act. In addition, while this change reduced our equity, it did not have a material impact on our capital ratios.

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

Escalating inflation leads the headlines as the Russia-Ukraine conflict and the COVID-19 lockdowns in China continue to disrupt global supply chains. After an annualized 6.9% increase in 2021, United States (U.S.) Gross Domestic Product (GDP) decreased at an annual rate of 1.6% in the first quarter of 2022. With the slow start in 2022, Moody's Analytics has revised annualized 2022 GDP growth down to 2.7% from 3.5%. The expansionary, deficit-financed fiscal policy of the pandemic contributed to a $2.8 trillion deficit in fiscal 2021, with a $1.2 trillion deficit forecast for fiscal 2022. The publicly traded debt-to-GDP ratio is near 100% and could breach the all-time high of 106% after World War II.

The Consumer Price Index for all items rose 9.1% for the 12 months ending June 2022, topping the 40 year peak in May 2022. Food, fuel, and housing continue to be large contributors to the increase in the all items index, but the sources of inflation are broadening to include more goods and services. The Federal Open Market Committee (FOMC) no longer considers inflation to be transitory and is becoming more aggressive in using rate increases and reduction of its balance sheet in an attempt to curb inflation. In June 2022, the FOMC increased the federal funds rate by 0.75% and by end of year the rate is predicted to be between 3.25% and 3.50%. Starting June 1, 2022, the Federal Reserve started shrinking its balance sheet starting with a $47.5 billion reduction per month and accelerating to $95.0 billion in September 2022. At that pace, the Fed could reach its pre-pandemic balance sheet of $4.3 trillion in about four years. Reduction of the balance sheet, also called quantitative tightening, could further increase interest rates.

The unemployment rate remained at 3.6%, the number of unemployed remained unchanged at 5.9 million, and total nonfarm employment rose by 372,000 in June 2022. Moody's anticipates that full employment, defined as a 3.5% unemployment rate and 62.5% labor force participation rate, will be achieved in the next few months.

AgCountry monitors global, national, and local events, and assesses the impact of those events on our customers and our cooperative as we fulfill our mission to serve agriculture and rural America. Despite the current volatile rate environment, AgCountry consistently helps customers succeed by providing constructive credit and financial services products.

AgCountry serves a broad range of commodities and agricultural industries across its three-state territory and participates with other Farm Credit associations in credit delivery across the Nation. The summaries below provide a high-level overview of conditions and outlook for the primary commodities in our local service area. See www.agcountry.com/resources for a more comprehensive discussion of current economic conditions and impact on commodities.

Specific Production Conditions

Corn: The second quarter brought a sharp split between old and new crop prices with volatility for both. Supplies of old crop pushed futures to the highest levels since August 2012. The end of the quarter grain stock estimates from the United States Department of Agriculture (USDA) National Agricultural Statistics Service were consistent with the trade's pre-report expectations. Nationally, those stocks remain primarily in off-farm locations but in the AgCountry territory, more corn is held on-farm than off-farm.

Soybeans: U.S. soybean futures held relatively firm through the second quarter of 2022, with an inverted spread between old and new crop futures. USDA's Prospective Plantings report on March 30, 2022, indicated producers were planning to put just over 92 million acres of soybeans in the ground, much higher than expectations. The June 30, 2022, planting intentions report dropped that estimate to around 89 million acres of soybeans. Those numbers may be revised later this summer after the USDA resurveys planted areas in North Dakota, Minnesota, and South Dakota due to late planting in those states.

Wheat: The June 30, 2022, stocks report measured the final carryout for 2021 wheat at 660 million bushels, the lowest carryout number since 2014 and at a 34.2% stocks-to-use ratio, the lowest ratio since 2013. Spring wheat carryout of 2021 is estimated at 112 million bushels, the smallest amount since 2008 and the lowest stocks-to-use ratio since 2007. USDA's final planting intentions showed 11.1 million acres of spring wheat planted for 2022. Three of the major producing states are subject to resurvey due to late planting.

Sugar Beets: A late spring raised concerns about the 2022 sugar beet crop. Private yield estimates have been reduced due to late planting, but as of June 30, 2022, most acres appear to be planted. The June projection for the 2022 U.S. sugar balance sheet was just 963 million short tons and a 7.6% stocks-to-use ratio, a reduction from the 13.6% stocks-to-use ratio projected earlier in the second quarter of 2022. The bulk of the reduction is due to lower beet sugar production estimates.

Dairy: USDA's June World Agriculture Supply and Demand report shows 2022 milk production increasing from 2021, with slower growth in milk per cow than anticipated in earlier reports. USDA's Class III projected milk prices forecast an average annual price of $22.90 per hundredweight (cwt) for 2022 as compared to the $17.08/cwt in 2021. Prices are expected to moderate back to $20.65/cwt in 2023 which is on the high end of the spectrum historically.

Ethanol: Profit margin on ethanol production, as estimated by the Iowa State Center for Agricultural and Rural Development, shifted from breakeven as of the last week in March 2022 to a return over operating costs of $0.31/gallon produced, up $.05 from the first quarter of 2022. The cost of corn per gallon of ethanol for the same period averaged $0.26 higher. The price of crude oil remains an important influence, but ongoing profitability should result in few, if any, plant closures due to losses.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $11.0 billion at June 30, 2022, an increase of $1.9 billion from December 31, 2021. The increase was primarily due to the merger with FCS ND, which added approximately $1.4 billion to the loan portfolio.

Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2021. Adversely classified loans decreased to 1.3% of the portfolio at June 30, 2022, from 1.4% 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, the Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At June 30, 2022, $348.8 million of our loans were substantially guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:		June 30, 2022		December 31, 2021
Loans:				
Nonaccrual	**$**	**11,444**	$	11,375
Accruing restructured		**3,836**		2,322
Accruing loans 90 days or more past due		**808**		1,427
Total risk loans		**16,088**		15,124
Other property owned		**--**		--
Total risk assets	**$**	**16,088**	$	15,124
Total risk loans as a percentage of total loans		**0.1%**		0.2%
Nonaccrual loans as a percentage of total loans		**0.1%**		0.1%
Current nonaccrual loans as a percentage of total nonaccrual loans		**67.2%**		56.8%
Total delinquencies as a percentage of total loans		**0.1%**		0.1%

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly 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.

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%**	0.3%
Nonaccrual loans	**189.9%**	201.7%
Total risk loans	**135.1%**	151.7%

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) For the six months ended June 30		2022		2021
Net income	**$**	**86,418**	$	82,970
Return on average assets		**1.5%**		1.9%
Return on average members' equity		**7.2%**		8.6%

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	**$**	**132,498**	$	104,370	**$**	**28,128**
(Reversal of) provision for credit losses		**(1,149)**		512		**1,661**
Non-interest income		**40,070**		42,884		**(2,814)**
Non-interest expense		**85,613**		63,273		**(22,340)**
Provision for income taxes		**1,686**		499		**(1,187)**
Net income	**$**	**86,418**	$	82,970	**$**	**3,448**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the six months ended June 30		2022 vs 2021
Changes in volume	**$**	**27,441**
Changes in interest rates		**695**
Changes in nonaccrual income and other		**(8)**
Net change	**$**	**28,128**

The increase in net interest income was primarily due to increased loan volume as a result of the merger with FCS ND and growth in the portfolio.

Non-Interest Expense

The change in non-interest expense was primarily due to increases in operating expenses due to the merger and are consistent with forecasts for the merged entity.

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.

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

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

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

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

Total members' equity increased $402.2 million from December 31, 2021, due to capital of $359.6 million acquired through the merger with FCS ND and net income for the period reduced by patronage accruals.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 6 in our 2021 Annual Report for a more complete description of these ratios. Effective January 1, 2022, the FCA regulations slightly modified the calculation of the unallocated retained earnings and equivalents leverage ratio to include certain additional deductions. The modification did not have a material impact on this ratio.

Regulatory Capital Requirements and Ratios

As of:	**June 30, 2022**	December 31, 2021	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**16.8%**	17.6%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**16.8%**	17.6%	6.0%	2.5%	8.5%
Total capital ratio	**17.0%**	17.9%	8.0%	2.5%	10.5%
Permanent capital ratio	**16.8%**	17.7%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**19.3%**	20.3%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.2%**	21.6%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 10 in our 2021 Annual Report.

CERTIFICATION

The undersigned have reviewed the June 30, 2022, Quarterly Report of AgCountry 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.

Greg Sabolik
Board Chair
AgCountry Farm Credit Services, ACA

Marcus L. Knisely
President and Chief Executive Officer
AgCountry Farm Credit Services, ACA

Rebecca A. Thibert
Chief Financial Officer
AgCountry Farm Credit Services, ACA

August 3, 2022

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:		**June 30, 2022**		December 31, 2021
ASSETS				
Loans	**$**	**11,036,002**	$	9,103,774
Allowance for loan losses		**21,733**		22,946
Net loans		**11,014,269**		9,080,828
Investment in AgriBank, FCB		**286,717**		227,709
Accrued interest receivable		**85,336**		80,619
Premises and equipment, net		**48,897**		35,783
Other assets		**120,192**		108,393
Total assets	**$**	**11,555,411**	$	9,533,332
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**9,015,333**	$	7,379,556
Accrued interest payable		**32,783**		20,097
Deferred tax liabilities, net		**2,713**		1,889
Patronage distribution payable		**42,750**		67,500
Other liabilities		**47,034**		51,664
Total liabilities		**9,140,613**		7,520,706
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**13,324**		11,755
Capital stock and participation certificates receivable		**(13,323)**		(11,755)
Additional paid-in capital		**662,638**		304,385
Unallocated surplus		**1,762,023**		1,718,268
Accumulated other comprehensive loss		**(9,864)**		(10,027)
Total members' equity		**2,414,798**		2,012,626
Total liabilities and members' equity	**$**	**11,555,411**	$	9,533,332

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AgCountry 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	**$ 100,810**	$ 72,775	**$ 188,983**	$ 144,708
Interest expense	**32,988**	20,113	**56,485**	40,338
Net interest income	**67,822**	52,662	**132,498**	104,370
Provision for (reversal of) credit losses	**181**	(96)	**(1,149)**	512
Net interest income after provision for (reversal of) credit losses	**67,641**	52,758	**133,647**	103,858
Non-interest income				
Patronage income	**14,412**	12,502	**26,578**	23,546
Financially related services income	**2,552**	3,477	**7,356**	7,472
Fee income	**2,888**	5,589	**5,840**	11,710
Other non-interest income	**41**	177	**296**	156
Total non-interest income	**19,893**	21,745	**40,070**	42,884
Non-interest expense				
Salaries and employee benefits	**24,313**	18,619	**48,935**	37,023
Other operating expense	**18,382**	13,403	**35,399**	26,195
Other non-interest expense	**473**	41	**1,279**	55
Total non-interest expense	**43,168**	32,063	**85,613**	63,273
Income before income taxes	**44,366**	42,440	**88,104**	83,469
Provision for income taxes	**662**	567	**1,686**	499
Net income	**$ 43,704**	$ 41,873	**$ 86,418**	$ 82,970
Other comprehensive income				
Employee benefit plans activity	**$ 313**	$ 246	**$ 630**	$ 491
Total other comprehensive income	**313**	246	**630**	491
Comprehensive income	**$ 44,017**	$ 42,119	**$ 87,048**	$ 83,461

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

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

	Capital Stock and Participation Certificates and Receivable, Net	Additional Paid-in Capital	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2020	$ --	$ 304,385	$ 1,608,312	$ (9,662)	$ 1,903,035
Net income	--	--	82,970	--	82,970
Other comprehensive income	--	--	--	491	491
Unallocated surplus designated for patronage distributions	--	--	(34,499)	--	(34,499)
Capital stock and participation certificates issued	471	--	--	--	471
Capital stock and participation certificates retired	(628)	--	--	--	(628)
Reductions to capital stock and participation certificates receivable, net	157	--	--	--	157
Balance at June 30, 2021	$ --	$ 304,385	$ 1,656,783	$ (9,171)	$ 1,951,997
Balance at December 31, 2021	$ --	$ 304,385	$ 1,718,268	$ (10,027)	$ 2,012,626
Adjustments due to merger	**1,817**	**358,253**	**--**	**(467)**	**359,603**
Net income	**--**	**--**	**86,418**	**--**	**86,418**
Other comprehensive income	**--**	**--**	**--**	**630**	**630**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(42,663)**	**--**	**(42,663)**
Capital stock and participation certificates issued	**380**	**--**	**--**	**--**	**380**
Capital stock and participation certificates retired	**(625)**	**--**	**--**	**--**	**(625)**
Additions to capital stock and participation certificates receivable, net	**(1,571)**	**--**	**--**	**--**	**(1,571)**
Balance at June 30, 2022	**$ 1**	**$ 662,638**	**$ 1,762,023**	**$ (9,864)**	**$ 2,414,798**

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).

Merger Activity

Effective January 1, 2022, Farm Credit Services of North Dakota, ACA (FCS ND) merged into AgCountry Farm Credit Services, ACA (AgCountry). AgCountry acquired 100% of the assets and liabilities of FCS ND. The merged Association, AgCountry Farm Credit Services, ACA, is headquartered in Fargo, ND. The primary reason for the merger was to strategically position the associations to best serve member needs, now and in the future. The effects of the merger are included in the merged Association's results of operations, statement of condition, average balances, and related metrics beginning January 1, 2022.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Statements of Condition reflect the merged balances as of June 30, 2022. The Consolidated Statements of Comprehensive Income and the Consolidated Statements of Changes in Members' Equity reflect the results of the merged Association after January 1, 2022, and AgCountry prior to January 1, 2022. Information in the Notes to the Consolidated Financial Statements for 2022 reflect balances of the merged Association.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their members and other customers and not for the benefit of equity investors. As such, capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. The shares of FCS ND stock were converted in the merger into shares of AgCountry stock with identical rights and attributes. For this reason, the conversion of FCS ND stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each FCS ND share was converted into one share of AgCountry stock with an equal par value).

The capital stock and participation certificates acquired from FCS ND are included within members' equity on the Consolidated Statements of Condition. Prior to June 30, 2022, FCS ND stock was transitioned to accounts receivable stock, consistent with our current policy. A contra receivable for the stock was established and included in the line item titled "Capital stock and participation certificates receivable". This change had no impact on the capital stock or participation certificates owned by the borrowers, and borrowers retain all rights afforded to them by the Farm Credit Act. In addition, while this change reduced our equity, it did not have a material impact on our capital.

Management believes that because the stock in each association is fixed in value (although subject to impairment), the AgCountry stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, AgCountry undertook a process to estimate the acquisition-date fair value of FCS ND's equity interests instead of the acquisition-date fair value of AgCountry's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from FCS ND, were measured based on various estimates using assumptions that management believes are reasonable and using information available as of the merger date. Use of different estimates and judgments could yield materially different results.

The merger was accounted for as a business combination under the acquisition method of accounting. Pursuant to these rules, AgCountry acquired the assets and assumed the liabilities of FCS ND at their acquisition-date fair value. The fair value of the net identifiable assets acquired ($359.6 million) was substantially equal to the fair value of the equity interest exchanged in the merger. In addition, no material amounts of intangible assets were acquired. As a result, no goodwill was recorded. A net increase of $359.6 million was recorded in members' equity related to the merger.

The following condensed statement of net assets acquired reflects the fair value assigned to FCS ND's net assets as of the acquisition date. There were no subsequent changes to the initial fair value measurements since the merger.

Condensed Statement of Net Assets Acquired

(in thousands) As of January 1, 2022	North Dakota
Assets	
Net loans	$ 1,384,102
Accrued interest receivable	14,824
Other assets	57,300
Total assets	$ 1,456,226
Liabilities	
Notes payable	$ 1,079,753
Accrued interest payable	2,148
Other liabilities	14,722
Total liabilities	$ 1,096,623
Fair value of net assets acquired	$ 359,603

Fair value adjustments to FCS ND's assets and liabilities included a $4.7 million decrease to loans and a $3.6 million decrease to notes payable to reflect credit discounts, changes in interest rates, and other market conditions since the time these instruments were issued. These differences are being accreted or amortized into net interest income over the remaining life of the loan portfolio and debt instruments. The Association expects to collect the majority of the contractual amounts of the acquired loans not considered to be purchased credit-impaired, which totaled $1.4 billion at January 1, 2022. Refer to Note 2 in our 2021 Annual Report for further discussion on purchased credit-impaired loans.

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of AgCountry Farm Credit Services, ACA and its subsidiaries AgCountry Farm Credit Services, FLCA and AgCountry 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 the first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 that 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 the 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. We have completed 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 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 portfolio 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

As a result of the merger we acquired $1.4 billion in loans, of which 94.4% were categorized as having acceptable credit quality and 99.8% were current in payment status. A portion of the acquired loans were considered to be credit-impaired. However, they are not significant to the Consolidated Financial Statements as a whole.

Loans by Type

(dollars in thousands)

As of:	June 30, 2022 Amount	%	December 31, 2021 Amount	%
Real estate mortgage	**$ 4,522,701**	**40.9%**	$ 3,936,204	43.2%
Production and intermediate-term	**2,202,997**	**20.0%**	2,106,315	23.1%
Agribusiness	**3,178,885**	**28.8%**	2,254,031	24.8%
Other	**1,131,419**	**10.3%**	807,224	8.9%
Total	**$ 11,036,002**	**100.0%**	$ 9,103,774	100.0%

The other category is primarily composed of rural infrastructure 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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 1,546**	**$ 3,085**	**$ 4,631**	**$ 4,570,684**	**$ 4,575,315**	**$ 804**
Production and intermediate-term	**2,304**	**1,404**	**3,708**	**2,220,718**	**2,224,426**	**4**
Agribusiness	**--**	**--**	**--**	**3,188,459**	**3,188,459**	**--**
Other	**--**	**--**	**--**	**1,133,138**	**1,133,138**	**--**
Total	**$ 3,850**	**$ 4,489**	**$ 8,339**	**$ 11,112,999**	**$ 11,121,338**	**$ 808**

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	$ 2,058	$ 4,285	$ 6,343	$ 3,979,664	$ 3,986,007	$ 1,427
Production and intermediate-term	893	1,757	2,650	2,127,670	2,130,320	--
Agribusiness	1,116	--	1,116	2,258,714	2,259,830	--
Other	--	--	--	808,236	808,236	--
Total	$ 4,067	$ 6,042	$ 10,109	$ 9,174,284	$ 9,184,393	$ 1,427

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) As of:	**June 30, 2022**	December 31, 2021
Volume with specific allowance	**$ 3,650**	$ 3,897
Volume without specific allowance	**12,438**	11,227
Total risk loans	**$ 16,088**	$ 15,124
Total specific allowance	**$ 1,092**	$ 1,322
For the six months ended June 30	**2022**	2021
Income on accrual risk loans	**$ 162**	$ 142
Income on nonaccrual loans	**526**	535
Total income on risk loans	**$ 688**	$ 677
Average risk loans	**$ 17,928**	$ 17,653

Note: Accruing loans include accrued interest receivable.

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

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a TDR, also known as a formally restructured loan for regulatory purposes. A concession is generally granted 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	**$ 1,587**	**$ 1,587**	$ 1,601	$ 1,601
Production and intermediate-term	**566**	**566**	--	--
Total	**$ 2,153**	**$ 2,153**	$ 1,601	$ 1,601

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, acquisition costs, and unamortized adjustments to fair value on loans acquired through merger and may also reflect a previous direct charge-off of the investment.

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

TDRs Outstanding

(in thousands) As of:	**June 30, 2022**	December 31, 2021
Accrual status:		
Real estate mortgage	**$ 3,799**	$ 1,205
Production and intermediate-term	**37**	1,117
Agribusiness	**--**	--
Total TDRs in accrual status	**$ 3,836**	$ 2,322
Nonaccrual status:		
Real estate mortgage	**$ 1,788**	$ 1,287
Production and intermediate-term	**763**	161
Agribusiness	**768**	770
Total TDRs in nonaccrual status	**$ 3,319**	$ 2,218
Total TDRs:		
Real estate mortgage	**$ 5,587**	$ 2,492
Production and intermediate-term	**800**	1,278
Agribusiness	**768**	770
Total TDRs	**$ 7,155**	$ 4,540

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	**$ 22,946**	$ 22,344
(Reversal of) provision for loan losses	**(1,245)**	364
Loan recoveries	**35**	9
Loan charge-offs	**(3)**	(1)
Balance at end of period	**$ 21,733**	$ 22,716

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 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
Provision for credit losses	**$**	**96**	$	148
As of:		**June 30, 2022**		December 31, 2021
Accrued credit losses	**$**	**4,418**	$	4,322

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 10 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	**$**	**--**	**$**	**--**	**$**	**2,686**	**$**	**2,686**
As of December 31, 2021	Fair Value Measurement Using							Total Fair
		Level 1		Level 2		Level 3		Value
Impaired loans	$	--	$	--	$	2,704	$	2,704

Valuation Techniques

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

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 3, 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.