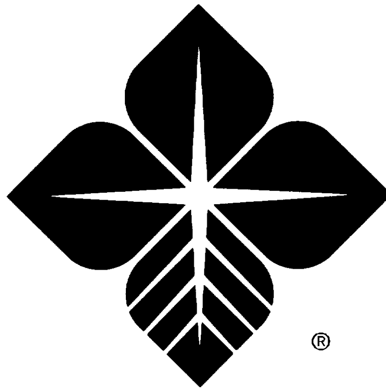
PLAINS LAND BANK, FLCA

2022
Quarterly Report
Second Quarter



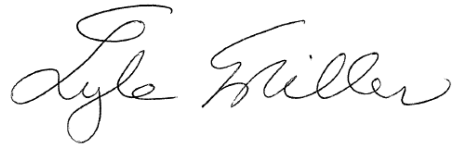
For the Quarter Ended June 30, 2022

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Kay Lynn McLaughlin, Chief Executive Officer

August 9, 2022



Lyle Miller, Chairman, Board of Directors

August 9, 2022

Holly Hofmann, Chief Financial Officer

August 9, 2022

Second Quarter 2022 Financial Report

Table of Contents

Management's Discussion and Analysis 4

Balance Sheet 9

Statements of Comprehensive Income 10

Statement of Changes in Members' Equity 11

Notes to the Financial Statements 12

PLAINS LAND BANK, FLCA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Plains Land Bank, FLCA, referred to as the Association, for the quarter ended June 30, 2022. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2021 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The financial statements comprise the operations of the FLCA. The financial statements were prepared under the oversight of the Association's audit committee.

Significant Events

In January 2022, a patronage of $9,200,000 was declared. The patronage was subsequently paid in March of 2022.

Conditions in the Texas District

Throughout the pandemic, the Texas District continued to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Demand for District associations' retail loans has been historically high, leading to elevated growth across the Texas District. Despite these turbulent times, credit quality in the Texas District has remained strong. However, after a prolonged pandemic period that has been characterized by both supply chain disruptions and geopolitical conflicts which have impacted the availability and prices of relevant agricultural inputs, volatility in risk ratings is likely in future periods.

Inflationary pressures continued during the second quarter of 2022. The Consumer Price Index for All Urban Consumers increased by 8.6% for the 12-month period ending May 2022 reflecting the largest 12-month increase since December 1981. The largest contributors to the overall increase continue to be rising prices for gasoline, shelter and food. Similarly, the Consumer Price Index for All Urban Consumers Less Food and Energy rose 6.0% for the 12-month period ending May 2022. Consequently, the Federal Open Market Committee (FOMC) increased the target Federal funds rate by a total of 150 basis points during the first half of 2022, including a 75 basis point increase in June. As of June 30, 2022, the Federal funds target rate range is 1.50-1.75%. The FOMC anticipates that ongoing increases in the target rate range will be appropriate during the remainder of 2022.

On June 29, 2022, the U.S. Bureau of Economic Analysis (BEA) estimated that national real GDP decreased at an annual rate of 1.6% in the first quarter of 2022, down from an increase of 6.9% in the fourth quarter of 2021. BEA also stated that corporate profits decreased by about 2.2% in the first quarter of 2022 after increasing by about 0.7% in the fourth quarter of 2021. Private goods-producing industries decreased 6.9% while private services-producing industries decreased 0.8%. On July 1, 2022, the Federal Reserve Bank of Atlanta's GDPNow model estimated that national real GDP decreased during the second quarter of 2022 by approximately 2.1%. On June 30, 2022, the BEA released its estimates of state GDP growth rates. In the Texas District, estimated real GDP growth during the first quarter of 2022 ranged from a low of -4.7% in New Mexico to -1.3% in Mississippi. Real GDP decreased in 46 states and the District of Columbia during the first quarter of 2022.

The quarterly average West Texas Intermediate (WTI) oil price was nearly $109 per barrel (/bbl) during the second quarter of 2022, representing an increase of about 15.0% compared to the prior quarter, and an increase of over 64.0% compared to the same period last year. Additionally, during the second quarter of 2022, the WTI price averaged more than double the breakeven price to profitably drill a new well in the Permian Basin (about $52/bbl per the Q1 2022 Federal Reserve Bank of Dallas Energy Survey). Similarly, in its June 2022 Short-Term Energy Outlook, the U.S. Energy Information Administration forecasted that the monthly WTI spot price would average about $102/bbl during 2022, before declining to about $93/bbl in 2023.

Texas and New Mexico, along with much of the Southwest, are being negatively impacted by severe drought conditions. As of early July, about three-quarters of the land area in Texas was experiencing a drought categorized as severe, extreme or exceptional. More than 85 percent of the land area in New Mexico was experiencing similar conditions. According to the National Weather Service Climate Prediction Center, above-normal temperatures and below-normal precipitation are likely to continue to impact these areas for at least the next 90 days.

On June 30, 2022, the U.S. Department of Agriculture (USDA) released an update to the 2022 Prospective Plantings report. Corn-planted area was estimated at 89.9 million acres for 2022, down about 4.0% from the prior year, but slightly revised upward from the prior quarter estimate. Soybeans-planted acreage was estimated at 88.3 million acres for 2022, up about 1.0% from the 2021 season, and revised down 2.7 million acres from the prior quarter estimate. Cotton-planted area was estimated at 12.5 million acres for 2022,

11.0% above last year's planted area and slightly revised upward from the prior quarter estimate. These estimates were derived from a survey of farmers' intentions and are subject to change throughout the season.

In its June 2022 World Agricultural Supply and Demand Estimates, the USDA projects that average farm prices for corn, soybeans and wheat will experience double-digit year-over-year (YOY) growth during the 2022/23 season, with the latter increasing as much as 40.0%. After rising by nearly 39.0% during the 2021/22 season, cotton farm prices are projected to increase by about 3.0% YOY during the 2022/23 season. The average milk price is projected to decrease by approximately 9.0% in 2023 after rising by about 41.0% in 2022. For barrows and gilts, steers, and broilers, the USDA projects that average prices will increase by approximately 4.9%, 14.5% and 52.7%, respectively, during 2022. Random-length lumber future prices declined quarter-over-quarter by about 34.0% during the second quarter of 2022, as interest rates began to rapidly rise and builders' confidence, measured by the National Home Builders Association/Wells Fargo's Housing Market Index, continued to deteriorate.

Agricultural producers may be negatively affected during the remainder of 2022 by several factors, including volatile commodity prices, high input costs, export market disruptions, geopolitical challenges, economic slowdown, and adverse weather conditions. The Association's loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of the Association's borrowers primarily rely on non-farm sources of income to repay their loans.

During 2022, the Bank in its role as an information technology provider to its affiliated Associations continued to modernize and roll out its service offering branded FarmView. FarmView is an integrated suite of products for managing the full lending relationship. The suite of products includes sales management, origination, credit analysis, loan accounting, integrated cash management, and document management solutions. The FarmView platform provides benefits directly to the converted Associations as well as their underlying retail borrowers. During the second quarter of 2022 the Bank converted one of its larger associations onto FarmView from its legacy platforms and is focused on training and conversion related activities for the next conversion during the remainder of 2022.

Loan Portfolio

Total loans outstanding at June 30, 2022, including nonaccrual loans and sales contracts, were $933,627,967 compared to $871,649,828 at December 31, 2021, reflecting an increase of 7.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at June 30, 2022, and December 31, 2021.

The Association recorded no recoveries or charge-offs for the six months ended June 30, 2022, and no recoveries and $789,250 in charge-offs for the same period in 2021. The Association's allowance for loan losses was 0.3 percent of total loans outstanding as of June 30, 2022, and December 31, 2021.

Risk Exposure

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans, and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	June 30, 2022		December 31, 2021	
	Amount	**%**	Amount	%
Nonaccrual	**$ 2,022,083**	**100.0%**	$ 2,115,427	100.0%
Total	**$ 2,022,083**	**100.0%**	$ 2,115,427	100.0%

During the second quarter of 2022, the Association did not exchange any mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security.

Results of Operations

The Association had net income of $5,714,908 and $10,913,076 for the three and six months ended June 30, 2022, as compared to net income of $4,995,515 and $8,079,555 for the same period in 2021, reflecting an increase of 14.4 percent and 35.1 percent, respectively. Net interest income was $6,305,248 and $12,412,746 for the three and six months ended June 30, 2022, compared to $5,703,635 and $11,227,830 for the same period in 2021.

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	Six Months Ended			
	June 30, 2022		June 30, 2021	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 899,111,328**	**$ 21,182,592**	$ 820,258,927	$ 18,987,519
Interest-bearing liabilities	**776,717,256**	**8,769,846**	703,668,673	7,759,689
Impact of capital	**$ 122,394,072**		$ 116,590,254	
Net interest income		**$ 12,412,746**		$ 11,227,830

	2022 Average Yield	2021 Average Yield
Yield on loans	**4.75%**	4.67%
Cost of interest-bearing liabilities	**2.28%**	2.22%
Interest rate spread	**2.47%**	2.45%
Net interest income as a percentage of average earning assets	**2.78%**	2.76%

	Six months ended: June 30, 2022 vs. June 30, 2021		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 1,825,288**	**$ 369,785**	**$ 2,195,073**
Interest expense	**805,551**	**204,606**	**1,010,157**
Net interest income	**$ 1,019,737**	**$ 165,179**	**$ 1,184,916**

Interest income for the three and six months ended June 30, 2022, increased by $1,350,644 and $2,195,073, or 14.0 percent and 11.6 percent, respectively, from the same period of 2021, primarily due to an increase in average loan volume and an increase in yields on earning assets. Interest expense for the three and six months ended June 30, 2022, increased by $749,031 and $1,010,157, or 19.1 percent and 13.0 percent, respectively, from the same period of 2021 due to an increase in average debt volume and an increase in interest rates. Average loan volume for the second quarter of 2022, was $917,444,805, compared to $832,383,709 in the second quarter of 2021. The average net interest rate spread on the loan portfolio for the second quarter of 2022 was 2.47 percent, compared to 2.45 percent in the second quarter of 2021.

The Association's return on average assets for the six months ended June 30, 2022, was 2.36 percent compared to 1.92 percent for the same period in 2021. The Association's return on average equity for the six months ended June 30, 2022, was 15.03 percent, compared to 12.01 percent for the same period in 2021.

Liquidity and Funding Sources

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

		June 30, 2022		December 31, 2021
Note payable to the Bank	**$**	**812,174,679**	$	752,201,210
Accrued interest on note payable		**1,637,717**		1,368,353
Total	**$**	**813,812,396**	$	753,569,563

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $812,174,679 as of June 30, 2022, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.46 percent at June 30, 2022. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2021, is due to the Association's increase in total assets since year end. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $121,353,795 at June 30, 2022. The maximum amount the Association may borrow from the Bank as of June 30, 2022, was $944,753,549 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources

The Association's capital position increased by $1,750,020 at June 30, 2022, compared to December 31, 2021. The Association's debt as a percentage of members' equity was 5.40:1 as of June 30, 2022, compared to 5.07:1 as of December 31, 2021.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, Tier 1 capital, and total capital risk-based capital ratios. The new regulations also added Tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of June 30, 2022, the Association exceeded all regulatory capital requirements.

Capital regulation changes for tier 1/tier 2 framework went into effect as of January 1, 2022. This change had a minimal impact and does not result in the Association's URE or UREE ratios falling below the regulatory minimum.

Significant Recent Accounting Pronouncements

In March 2022, the Financial Accounting Standards Board (FASB) issued an update entitled, "Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures." The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. In addition to the TDR guidance, the update requires public business entities to disclose current period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments will be effective for the Association at the time of adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

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

In March 2020, the FASB issued guidance titled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference

rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different Plains Land Bank, FLCA — 2021 Annual Report 11 types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association applied the optional accounting expedients available under the guidance to debt and derivative contract modifications related to LIBOR transition in the fourth quarter of 2020. The impact of adoption was not material to the Association's financial condition or results of operations. In addition, the Association adopted the optional expedient as it relates to loans during the first quarter of 2021, and the impact of adoption was not material to the Association's financial condition or results of operations.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain entities. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those entities qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

Relationship With the Farm Credit Bank of Texas

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2021 Annual Report of Plains Land Bank, FLCA more fully describe the Association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank are also available on its website at *www.farmcreditbank.com.*

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Plains Land Bank, FLCA, 1616 S. Kentucky St., Suite C250, Amarillo, Texas 79102-5210 or calling (806) 331-0926. The annual and quarterly stockholder reports for the Association are also available on its website at *www.plainslandbank.com*. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *hhofmann@plainslandbank.com*.

PLAINS LAND BANK, FLCA

BALANCE SHEET

	June 30, 2022 (unaudited)	December 31, 2021
ASSETS		
Cash	**$ 15,759**	$ 11,310
Loans	**933,627,967**	871,649,828
Less: allowance for loan losses	**2,310,459**	2,376,000
Net loans	**931,317,508**	869,273,828
Accrued interest receivable	**13,647,224**	15,537,365
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**16,525,600**	16,600,480
Other	**3,522,679**	2,460,717
Premises and equipment, net	**2,577,212**	2,674,324
Other assets	**651,832**	749,033
Total assets	**$ 968,257,814**	$ 907,307,057
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 812,174,679**	$ 752,201,210
Accrued interest payable	**1,637,717**	1,368,353
Drafts outstanding	**389,253**	200,915
Other liabilities	**2,777,156**	4,007,590
Total liabilities	**816,978,805**	757,778,068
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,230,745**	2,188,585
Unallocated retained earnings	**148,945,139**	147,232,063
Accumulated other comprehensive income	**103,125**	108,341
Total members' equity	**151,279,009**	149,528,989
Total liabilities and members' equity	**$ 968,257,814**	$ 907,307,057

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

PLAINS LAND BANK, FLCA

STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2022	2021	**2022**	2021
INTEREST INCOME				
Loans	**$ 10,979,666**	$ 9,629,022	**$ 21,182,592**	$ 18,987,519
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**4,674,418**	3,925,387	**8,769,846**	7,759,689
Net interest income	**6,305,248**	5,703,635	**12,412,746**	11,227,830
(PROVISION REVERSAL) PROVISION FOR LOAN LOSSES	**(51,052)**	(45,158)	**(83,920)**	847,947
Net interest income after provision for loan losses	**6,356,300**	5,748,793	**12,496,666**	10,379,883
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**1,394,692**	1,000,262	**2,775,263**	1,992,417
Loan fees	**37,664**	26,345	**79,806**	295,194
Financially related services income	**3,293**	2,736	**5,227**	4,401
Gain on other property owned, net	**-**	78,069	**-**	83,439
Gain on sale of premises and equipment, net	**119,306**	18,786	**134,789**	36,124
Other noninterest income	**50,835**	27,648	**70,981**	58,394
Total noninterest income	**1,605,790**	1,153,846	**3,066,066**	2,469,969
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,084,648**	1,058,484	**2,241,975**	2,806,229
Directors' expense	**79,331**	78,511	**176,735**	130,926
Purchased services	**112,448**	90,988	**382,170**	401,481
Travel	**41,932**	40,588	**100,304**	94,015
Occupancy and equipment	**109,259**	113,308	**249,209**	228,733
Communications	**26,385**	23,635	**58,854**	46,710
Advertising	**91,596**	73,832	**209,627**	169,982
Public and member relations	**76,270**	61,382	**127,476**	114,043
Supervisory and exam expense	**78,964**	59,401	**157,929**	132,230
Insurance Fund premiums	**449,536**	267,476	**804,323**	588,156
Other noninterest expense	**96,813**	39,519	**141,054**	57,792
Total noninterest expenses	**2,247,182**	1,907,124	**4,649,656**	4,770,297
NET INCOME	**5,714,908**	4,995,515	**10,913,076**	8,079,555
Other comprehensive income:				
Change in postretirement benefit plans	**(2,608)**	(2,608)	**(5,216)**	(5,216)
COMPREHENSIVE INCOME	**$ 5,712,300**	$ 4,992,907	**$ 10,907,860**	$ 8,074,339

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

PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 2,098,280	$ 137,695,231	$ 127,250	$ 139,920,761
Comprehensive income	-	8,079,555	(5,216)	8,074,339
Capital stock/participation certificates and allocated retained earnings issued	188,070	-	-	188,070
Capital stock/participation certificates and allocated retained earnings retired	(157,810)	-	-	(157,810)
Patronage refunds:				
Cash	-	(8,800,000)	-	(8,800,000)
Capital stock/participation certificates and allocated retained earnings	-	2,133	-	2,133
Balance at June 30, 2021	$ 2,128,540	$ 136,976,919	$ 122,034	$ 139,227,493
Balance at December 31, 2021	$ 2,188,585	$ 147,232,063	$ 108,341	$ 149,528,989
Comprehensive income	-	10,913,076	(5,216)	10,907,860
Capital stock/participation certificates and allocated retained earnings issued	197,120	-	-	197,120
Capital stock/participation certificates and allocated retained earnings retired	(154,960)	-	-	(154,960)
Patronage refunds:				
Cash	-	(9,200,000)	-	(9,200,000)
Capital stock/participation certificates and allocated retained earnings	-	-	-	-
Balance at June 30, 2022	**$ 2,230,745**	**$ 148,945,139**	**$ 103,125**	**$ 151,279,009**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Plains Land Bank, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Armstrong, Briscoe, Carson, Floyd, Gray, Hale, the southwest portion of Hall, Hansford, Hemphill, Hutchinson, Lipscomb, Motley, Ochiltree, Oldham, Potter, Randall, and Roberts in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders.

In the opinion of management, the accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2022. Descriptions of the significant accounting policies are included in the 2021 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In March 2022, the Financial Accounting Standards Board (FASB) issued an update entitled, “Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures.” The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. In addition to the TDR guidance, the update requires public business entities to disclose current period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments will be effective for the Association at the time of adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

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

In March 2020, the FASB issued guidance titled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different Plains Land Bank, FLCA — 2021 Annual Report 11 types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association applied the optional accounting expedients available under the guidance to debt and derivative contract modifications related to LIBOR transition in the fourth quarter of 2020. The impact of adoption was not material to the Association’s financial condition or results of operations. In addition, the Association adopted the optional expedient as it relates to loans during the first quarter of 2021, and the impact of adoption was not material to the Association’s financial condition or results of operations.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain entities. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those entities qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

The financial statements comprise the operations of the FLCA. The preparation of these financial statements requires the use of management's estimates. The results for the quarter ended June 30, 2022, are not necessarily indicative of the results to be expected for the year ended December 31, 2022. Certain amounts in the prior period's financial statements may have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**June 30, 2022 Amount**	December 31, 2021 Amount
Production agriculture:		
Real estate mortgage	**$ 812,898,226**	$ 764,558,538
Production and intermediate term	**6,021,656**	5,222,308
Agribusiness:		
Processing and marketing	**40,138,934**	42,726,479
Farm-related business	**18,010,132**	10,328,964
Loans to cooperatives	**6,337,968**	3,114,690
Rural residential real estate	**17,143,126**	14,771,419
Energy	**15,393,917**	15,679,977
Communication	**13,241,472**	11,701,039
Water and waste water	**2,444,361**	1,548,440
Agricultural export finance	**1,998,175**	1,997,974
Total	**$ 933,627,967**	$ 871,649,828

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2022:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 44,845,771	$ -	$ -	$ -	$ 44,845,771	$ -
Energy	15,393,917	-	-	-	15,393,917	-
Real estate mortgage	14,679,614	32,742,073	7,203,136	-	21,882,750	32,742,073
Communication	13,241,472	-	-	-	13,241,472	-
Production and intermediate term	6,021,656	-	-	-	6,021,656	-
Water and waste water	2,444,361	-	-	-	2,444,361	-
Agricultural export finance	1,998,175	-	-	-	1,998,175	-
Total	$ 98,624,966	$ 32,742,073	$ 7,203,136	$ -	$105,828,102	$ 32,742,073

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $11,680,517 and $10,431,913 at June 30, 2022, and December 31, 2021, respectively.

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	June 30, 2022	December 31, 2021
Nonaccrual loans:		
Energy	**$ 2,022,083**	$ 2,115,427
Total nonperforming assets	**$ 2,022,083**	$ 2,115,427

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2022		December 31, 2021	
Real estate mortgage				
Acceptable	**98.9**	%	98.7	%
OAEM	**-**		-	
Substandard/doubtful	**1.1**		1.3	
	100.0		100.0	
Production and intermediate term				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Agribusiness				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Energy				
Acceptable	**87.0**		86.5	
OAEM	**-**		-	
Substandard/doubtful	**13.0**		13.5	
	100.0		100.0	
Water/waste water				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Communication				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Rural residential real estate				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Agricultural export finance				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Total loans				
Acceptable	**98.9**		98.7	
OAEM	**-**		-	
Substandard/doubtful	**1.1**		1.3	
	100.0	%	100.0	%

The following tables provide an age analysis of past due loans (including accrued interest) 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 Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 444,322**	**$ -**	**$ 444,322**	**$ 825,367,080**	**$ 825,811,402**	**$ -**
Processing and marketing	**-**	**-**	**-**	**40,585,838**	**40,585,838**	**-**
Farm-related business	**-**	**-**	**-**	**18,061,133**	**18,061,133**	**-**
Rural residential real estate	**-**	**-**	**-**	**17,223,743**	**17,223,743**	**-**
Energy	**-**	**1,248,898**	**1,248,898**	**14,264,336**	**15,513,234**	**-**
Communication	**-**	**-**	**-**	**13,246,056**	**13,246,056**	**-**
Loans to cooperatives	**-**	**-**	**-**	**6,348,879**	**6,348,879**	**-**
Production and intermediate term	**-**	**-**	**-**	**6,035,969**	**6,035,969**	**-**
Water and waste water	**-**	**-**	**-**	**2,445,018**	**2,445,018**	**-**
Agricultural export finance	**-**	**-**	**-**	**2,003,919**	**2,003,919**	**-**
Total	**$ 444,322**	**$ 1,248,898**	**$ 1,693,220**	**$ 945,581,971**	**$ 947,275,191**	**$ -**

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 Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ -	$ -	$ -	$ 779,728,987	$ 779,728,987	$ -
Processing and marketing	-	-	-	42,969,467	42,969,467	-
Farm-related business	-	-	-	10,348,836	10,348,836	-
Rural residential real estate	-	-	-	14,838,298	14,838,298	-
Energy	-	1,248,898	1,248,898	14,446,466	15,695,364	-
Communication	-	-	-	11,701,663	11,701,663	-
Loans to cooperatives	-	-	-	3,120,054	3,120,054	-
Production and intermediate term	-	-	-	5,233,974	5,233,974	-
Water and waste water	-	-	-	1,549,135	1,549,135	-
Agricultural export finance	-	-	-	2,001,415	2,001,415	-
Total	$ -	$ 1,248,898	$ 1,248,898	$ 885,938,295	$ 887,187,193	$ -

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

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor’s financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings (TDRs) are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

There were no troubled debt restructured loans as of June 30, 2022. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring as of June 30, 2022, and December 31, 2021.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs recorded for the quarter ending June 30, 2022.

The predominant form of concession granted for troubled debt restructuring includes concessions. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases, and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral, or new borrower guarantees, in which case, the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

Additional impaired loan information is as follows:

	June 30, 2022			December 31, 2021		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Energy	**$ 2,022,083**	**$ 2,023,122**	**$ 429,295**	$ 2,115,427	$ 2,116,466	$ 439,684
Total	**$ 2,022,083**	**$ 2,023,122**	**$ 429,295**	$ 2,115,427	$ 2,116,466	$ 439,684
Impaired loans with no related allowance for credit losses:						
Energy	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -
Total	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -
Total impaired loans:						
Energy	**$ 2,022,083**	**$ 2,023,122**	**$ 429,295**	$ 2,115,427	$ 2,116,466	$ 439,684
Total	**$ 2,022,083**	**$ 2,023,122**	**$ 429,295**	$ 2,115,427	$ 2,116,466	$ 439,684

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2022		June 30, 2021		**June 30, 2022**		June 30, 2021	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Energy	**$ 2,044,812**	**$ -**	$ 1,658,642	$ 1,006	**$ 2,078,992**	**$ -**	$ 1,059,122	$ 2,214
Total	**$ 2,044,812**	**$ -**	$ 1,658,642	$ 1,006	**$ 2,078,992**	**$ -**	$ 1,059,122	$ 2,214
Impaired loans with no related allowance for credit losses:								
Energy	**$ -**	**$ -**	$ -	$ -	**$ -**	**$ -**	$ -	$ -
Total	**$ -**	**$ -**	$ -	$ -	**$ -**	**$ -**	$ -	$ -
Total impaired loans:								
Energy	**$ 2,044,812**	**$ -**	$ 1,658,642	$ 1,006	**$ 2,078,992**	**$ -**	$ 1,059,122	$ 2,214
Total	**$ 2,044,812**	**$ -**	$ 1,658,642	$ 1,006	**$ 2,078,992**	**$ -**	$ 1,059,122	$ 2,214

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Allowance for Credit Losses:								
Balance at March 31, 2022	$ 1,623,800	$ 14,012	$ 202,414	$ 21,600	$ 456,026	$ 27,847	$ 5,627	$ 2,351,326
Charge-offs	-	-	-	-	-	-	-	-
Provision for loan losses	(65,784)	1,286	20,457	(113)	(9,653)	2,459	295	(51,053)
Other	(1,931)	1,976	6,866	-	2,854	(129)	550	10,186
Balance at June 30, 2022	$ 1,556,085	$ 17,274	$ 229,737	$ 21,487	$ 449,227	$ 30,177	$ 6,472	$ 2,310,459
Balance at December 31, 2021	$ 1,666,611	$ 13,512	$ 187,515	$ 21,384	$ 455,827	$ 25,857	$ 5,294	$ 2,376,000
Charge-offs	-	-	-	-	-	-	-	-
Provision for loan losses	(108,991)	1,650	28,772	103	(10,402)	4,320	628	(83,920)
Other	(1,535)	2,112	13,450	-	3,802	-	550	18,379
Balance at June 30, 2022	$ 1,556,085	$ 17,274	$ 229,737	$ 21,487	$ 449,227	$ 30,177	$ 6,472	$ 2,310,459
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 429,295	$ -	$ -	$ 429,295
Collectively evaluated for impairment	1,556,085	17,274	229,737	21,487	19,932	30,177	6,472	1,881,164
Balance at June 30, 2022	$ 1,556,085	$ 17,274	$ 229,737	$ 21,487	$ 449,227	$ 30,177	$ 6,472	$ 2,310,459
Balance at March 31, 2021	$ 2,110,443	$ 45,376	$ 314,739	$ 29,679	$ 537,258	$ 30,585	$ -	$ 3,068,080
Charge-offs	-	-	-	-	-	-	-	-
Provision for loan losses	(68,904)	(4,420)	(29,171)	(2,490)	55,362	(1,361)	5,826	(45,158)
Other	(210)	1,232	2,402	-	(5,225)	-	-	(1,801)
Balance at June 30, 2021	$ 2,041,329	$ 42,188	$ 287,970	$ 27,189	$ 587,395	$ 29,224	$ 5,826	$ 3,021,121
Balance at December 31, 2020	$ 2,240,849	$ 38,077	$ 369,848	$ 28,759	$ 255,256	$ 31,073	$ -	$ 2,963,862
Charge-offs	-	-	(789,250)	-	-	-	-	(789,250)
Provision for loan losses	(198,222)	8,875	694,577	(1,570)	340,310	(1,849)	5,826	847,947
Other	(1,298)	(4,764)	12,795	-	(8,171)	-	-	(1,438)
Balance at June 30, 2021	$ 2,041,329	$ 42,188	$ 287,970	$ 27,189	$ 587,395	$ 29,224	$ 5,826	$ 3,021,121
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 552,201	$ -	$ -	$ 552,201
Collectively evaluated for impairment	2,041,329	42,188	287,970	27,189	35,194	29,224	5,826	2,468,920
Balance at June 30, 2021	$ 2,041,329	$ 42,188	$ 287,970	$ 27,189	$ 587,395	$ 29,224	$ 5,826	$ 3,021,121

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at June 30, 2022	$ 825,811,402	$ 6,035,969	$ 64,995,850	$ 13,246,056	$ 17,958,252	$ 17,223,743	$ 2,003,919	$ 947,275,191
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 2,022,083	$ -	$ -	$ 2,022,083
Collectively evaluated for impairment	$ 825,811,402	$ 6,035,969	$ 64,995,850	$ 13,246,056	$ 15,936,169	$ 17,223,743	$ 2,003,919	$ 945,253,108
Ending Balance at December 31, 2021	$ 779,728,987	$ 5,233,974	$ 56,438,357	$ 11,701,663	$ 17,244,499	$ 14,838,298	$ 2,001,415	$ 887,187,193
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 2,115,427	$ -	$ -	$ 2,115,427
Collectively evaluated for impairment	$ 779,728,987	$ 5,233,974	$ 56,438,357	$ 11,701,663	$ 15,129,072	$ 14,838,298	$ 2,001,415	$ 885,071,766

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2022	June 30, 2021	**June 30, 2022**	June 30, 2021
Operating lease cost	**$ 22,901**	$ 18,011	**$ 45,802**	$ 36,022
Net lease cost	**$ 22,901**	$ 18,011	**$ 45,802**	$ 36,022

Other information related to leases was as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2022	June 30, 2021	**June 30, 2022**	June 30, 2021
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows for operating leases	**$ 23,615**	$ 18,403	**$ 46,965**	$ 36,572
Right-of-use assets obtained in exchange for new lease obligations:				
Operating leases	**$ (21,439)**	$ (16,313)	**$ 217,940**	$ 257,374

Lease term and discount rate are as follows:

	June 30, 2022	December 31, 2021
Weighted average remaining lease term in years		
Operating leases	**2.77**	3.21
Weighted average discount rate		
Operating leases	**2.43%**	2.43%

Future minimum lease payments under non-cancellable leases as of June 30, 2022 were as follows:

	Operating Leases
2021	$ -
2022	44,772
2023	83,158
2024	82,990
2025	27,846
Thereafter	-
Total lease payments	$ 238,766
Less: interest	7,811
Total	$ 230,955

During the first quarter of 2021, the Association entered into a sales-type lease agreement in which the Association is the lessor. At the termination of the lease, the Association will grant the lessee the option to purchase the property, which was valued at $318,059 at the inception of the lease.

Components of lease receivable were as follows:

Unguaranteed residual value of leased assets	**$ 272,898**
Profit recognized at the commencement of the lease	**$ 12,636**

Other information related to sales-type leases was as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2022	June 30, 2021	**June 30, 2022**	June 30, 2021
Interest income	**$ 558**	$ 2,605	**$ 2,285**	$ 2,605
Cash received for amounts included in the measurement of leased assets	**$ 5,000**	$ 20,000	**$ 20,000**	$ 22,630

NOTE 4 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the Association's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of the Association's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	**Regulatory Requirements Including Capital Conservation Buffers**	**As of June 30, 2022**	As of December 31, 2021
Common equity tier 1 ratio	7.00%	**13.82%**	14.45%
Tier 1 capital ratio	8.50%	**13.82%**	14.45%
Total capital ratio	10.50%	**14.07%**	14.76%
Permanent capital ratio	7.00%	**13.85%**	14.50%
Non-risk-adjusted:			
Tier 1 leverage ratio	5.00%	**13.97%**	14.70%
UREE leverage ratio	1.50%	**13.73%**	15.89%

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) are as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of seven years, allocated equities held for a minimum of seven years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk adjusted assets.

- Total capital is tier 1 capital plus other required borrower stock held for a minimum of five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred stock greater than five years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.

- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.

- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends, and patronage), and discretionary bonus payments to senior offices are restricted or prohibited without prior FCA approval.

The components of the Association's risk-adjusted capital, based on 90-day average balances, were as follows on June 30, 2022 and December 31, 2021, respectively:

June 30, 2022	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**$ 144,337,978**	**$ 144,337,978**	**$ 144,337,978**	**$ 144,337,978**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,209,399**	**2,209,399**	**2,209,399**	**2,209,399**
Allowance for loan losses and reserve for credit losses subject to certain limitations	**-**	**-**	**2,403,421**	**-**
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(16,552,888)**	**(16,552,888)**	**(16,552,888)**	**(16,552,888)**
	129,994,489	**129,994,489**	**132,397,910**	**129,994,489**
Denominator:				
Risk-adjusted assets excluding allowance	**957,470,795**	**957,470,795**	**957,470,795**	**957,470,795**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(16,552,888)**	**(16,552,888)**	**(16,552,888)**	**(16,552,888)**
Allowance for loan losses	**-**	**-**	**-**	**(2,338,936)**
	$ 940,917,907	**$ 940,917,907**	**$ 940,917,907**	**$ 938,578,971**

December 31, 2021	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 141,671,387	$ 141,671,387	$ 141,671,387	$ 141,671,387
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,177,137	2,177,137	2,177,137	2,177,137
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	2,834,360	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(12,708,391)	(12,708,391)	(12,708,391)	(12,708,391)
	131,140,133	131,140,133	133,974,493	131,140,133
Denominator:				
Risk-adjusted assets excluding allowance	920,127,457	920,127,457	920,127,457	920,127,457
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(12,708,391)	(12,708,391)	(12,708,391)	(12,708,391)
Allowance for loan losses	-	-	-	(2,738,019)
	$ 907,419,066	$ 907,419,066	$ 907,419,066	$ 904,681,047

The components of the Association's non-risk-adjusted capital, based on 90-day average balances, were as follows on June 30, 2022 and December 31, 2021, respectively:

	June 30, 2022		December 31, 2021	
	Tier 1 leverage ratio	**UREE leverage ratio**	Tier 1 leverage ratio	UREE leverage ratio
Numerator:				
Unallocated retained earnings	**$ 144,337,978**	**$ 144,337,978**	$ 141,671,387	$ 141,671,387
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,209,399**	**-**	2,177,137	-
Amount of allocated investments in other System institutions	**(16,552,888)**	**(16,552,888)**	(12,708,391)	-
	129,994,489	**127,785,090**	131,140,133	141,671,387
Denominator:				
Total Assets	**948,342,086**	**948,342,086**	907,281,573	907,281,573
Regulatory Adjustments and Deductions:				
Regulatory deductions included in Tier 1 capital	**(17,858,433)**	**(17,858,433)**	(15,468,189)	(15,468,189)
	$ 930,483,653	**$ 930,483,653**	$ 891,813,384	$ 891,813,384

An additional component of equity is accumulated other comprehensive income, which is reported as follows:

Accumulated Other Comprehensive Income

	June 30, 2022
Nonpensions postretirement benefits	**$ 103,125**
Total	**$ 103,125**

	June 30, 2021
Nonpensions postretirement benefits	$ 122,034
Total	$ 122,034

The Association's accumulated other comprehensive income relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits is reflected in "Salaries and employee benefits" in the Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income for the six months ended June 30:

	2022	2021
Accumulated other comprehensive income at January 1	**$ 108,341**	$ 127,250
Amortization of prior service credits included in salaries and employee benefits	**(5,216)**	(5,216)
Other comprehensive loss,	**(5,216)**	(5,216)
Accumulated other comprehensive income at June 30	**$ 103,125**	$ 122,034

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 to the 2021 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

June 30, 2022	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ -**	**$ -**	**$1,593,827**	**$1,593,827**	**$ -**

December 31, 2021	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans*	$ -	$ -	$ 1,675,743	$ 1,675,743	$ -

*Represents the fair value of certain loans that were evaluated for impairment under the authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

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

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

Valuation Techniques

As more fully discussed in Note 13 to the 2021 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2021 Annual Report to Stockholders.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the six months ended June 30:

	Other Benefits	
	2022	2021
Service cost	**$ 2,898**	$ 2,763
Interest cost	**18,186**	16,225
Amortization of prior service credits	**(5,216)**	(5,216)
Net periodic benefit cost	**$ 15,868**	$ 13,772

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2022, was $1,177,693 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other noninterest expense" in the income statement.

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities, and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2021, that it expected to contribute $58,715 to the District's defined benefit pension plan in 2022. As of June 30, 2022, $204,059 of contributions have been made. The Association presently anticipates contributing an additional $204,059 to fund the defined benefit pension plan in 2022 for a total of $408,118.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through August 9, 2022, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 9, 2022.