



**Quarterly Report  
March 31, 2022**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

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

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## **FORWARD-LOOKING INFORMATION**

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

## **AGRICULTURAL AND ECONOMIC CONDITIONS**

2021 was a good production and financial year for local producers with most producer balance sheets reflecting strong growth in working capital and overall equity. 2022 currently shows good profit potential across most agriculture segments, but at significantly reduced margins. The March 2022 United States Department of Agriculture (USDA) outlook projects net farm income to decrease by \$5.4 billion (4.5%) to \$113.7 billion. In inflation adjusted dollars net farm income is forecast to decrease by \$9.7 billion (7.9%). Farm sector equity is forecast to increase to about \$2.9 trillion, but decline 2.5% in inflation adjusted dollars (Source USDA March 2022 Farm Sector Income Forecast). 2022 will likely be a year of moderate to extreme volatility. With tight global stocks and the unknown full impact of the Russian and Ukrainian conflict, any additional interruption to supplies and inputs could be significant in terms of pricing. While we believe 2022 will be profitable, our focus is turning to 2023 and the continued rise in input costs and potential further tightening of margins. On the livestock side, the Highly Pathogenic Avian Influenza is impacting the poultry and egg markets throughout the U.S. creating supply challenges and pricing opportunities. 2022 marks the first year of various livestock production restrictions in California. For many producers the anticipated increased revenues from production changes need to materialize to offset increased fixed costs. Livestock producers and processors of all categories are challenged with feed costs and continued pressures on labor supply. Land values, the cornerstone of agriculture's balance sheet, are experiencing double digit increases. Strong demand, limited market supply, increasing alternative uses, and low interest rates are driving prices. While interest rates are increasing it will take significant increases to materially challenge current market demand.

The Purdue University/CME Group Ag Economy Barometer, a nationwide measure of the health of the U.S. agricultural economy, rose 6 points in February 2022 to match the previous December reading after a decrease in January. The shift in sentiment was primarily attributable to producers expressing a bit more optimism about the future than in January. Producers remain concerned about the spike in production costs leading them to expect weaker farm financial performance in 2022 than in 2021. Supply chain issues continue to hold back farmers' plans for investments in farm machinery as well as buildings and grain bins. Thirty percent of corn/soybean producers said they've had some difficulty purchasing inputs for the 2022 crop with herbicides being the most commonly cited procurement problem followed by fertilizer and farm machinery parts. In response to high fertilizer prices, one-third of corn producers in the February 2022 survey said they plan to reduce their nitrogen application rate compared to the rate they used in 2021. Finally, the percentage of producers who say they either have no plans to increase the size of their farming operation or plan to exit or retire from farming in the upcoming five years appears to be increasing over time, rising from one-third of respondents in 2016 to just over half of the respondents in the February 2022 survey (Source Purdue University February 2022 Ag Economy Barometer).

In terms of the general economy, the February 2022 U.S. Bureau of Labor Statistics reported total unemployment of 3.6%. February unemployment rates for the Association's four state area are as follows: Indiana 2.3%, Kentucky 4.2%, Tennessee 3.4% and Ohio 4.2%. Housing activity in our four state territory remains strong despite elevated costs of construction. Refinance activity has fallen sharply based on rising interest rates and significant

refinancing completed in the last 24 months. According to the February 2022 University of Michigan Surveys of Consumers, consumer sentiment declined in February to 62.8%, and remained at the lowest point in the past decade. The February descent resulted from inflationary declines in personal finances, a near universal awareness of rising interest rates, falling confidence in the government's economic policies, and the most negative long term prospects for the economy in the past decade. Virtually all interviews were conducted prior to the start of the Russian and Ukrainian conflict, so its impact is yet to be felt by consumers. The most likely linkage to the domestic economy is through rising energy prices, with the size and length of the potential increases subject to substantial uncertainty.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were \$27.8 billion at March 31, 2022, an increase of \$541.3 million from December 31, 2021. The increase was primarily due to activity in real estate mortgage and agribusiness loans, partially offset by repayments on production and intermediate-term loans.

### Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2021. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. Adversely classified loans decreased to 2.3% of the portfolio at March 31, 2022, from 2.6% of the portfolio at December 31, 2021. Growth in high quality new loans and proactive engagement with customers experiencing economic challenges continues to strengthen the overall portfolio. Stable to increasing collateral values are supporting good loan to value ratios throughout the portfolio. Rising inflation, increasing interest rates, a strong labor market without adequate workers to fill available jobs, and lingering supply chain issues continue to be portfolio stressors early in 2022. Delinquencies, an early indicator of challenges, increased in the first quarter but remain low. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

### Risk Assets

#### Components of Risk Assets

(dollars in thousands)	March 31, 2022	December 31, 2021
<b>As of:</b>		
Loans:		
Non-accrual	\$ 132,782	\$ 141,955
Accruing restructured	14,742	15,771
Accruing loans 90 days or more past due	119,088	67,123
Total risk loans	266,612	224,849
Other property owned	1,077	1,272
Total risk assets	\$ 267,689	\$ 226,121
Total risk loans as a percentage of total loans	1.0%	0.8%
Non-accrual loans as a percentage of total loans	0.5%	0.5%
Current non-accrual loans as a percentage of total non-accrual loans	68.4%	69.0%
Total delinquencies as a percentage of total loans	1.2%	0.9%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2021, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management parameters.

The increase in accruing loans 90 days or more past due and total delinquencies as a percentage of total loans was primarily due to delinquencies in USDA guaranteed assets, for which we expect full payment. Additionally, one large lending relationship consisting primarily of production and intermediate-term and real estate mortgage type loans was past due as of March 31, 2022; however, subsequent to the finalization of a forbearance agreement in April 2022, the loans are current and full collection is expected. Our accounting policy requires loans past due 90 days or more to be transferred into non-accrual status unless adequately secured and a plan is in place to collect past due amounts. 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:	March 31, 2022	December 31, 2021
Allowance as a percentage of:		
Loans	0.24%	0.26%
Non-accrual loans	50.4%	49.8%
Total risk loans	25.1%	31.5%

The allowance for loan losses decreased from December 31, 2021, due to the reversal of credit losses recorded during the three months ended March 31, 2022. The allowance analysis indicated a reversal of allowance was needed due to improved credit quality and economic conditions. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2022.

**RESULTS OF OPERATIONS****Profitability Information**

(dollars in thousands)

For the three months ended March 31	2022	2021
Net income	\$ 111,151	\$ 104,834
Return on average assets	1.51%	1.59%
Return on average members' equity	8.24%	8.10%

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**

For the three months ended March 31	2022	2021	Increase (decrease) in net income
Net interest income	\$ 149,785	\$ 135,595	\$ 14,190
Reversal of credit losses	(2,663)	--	2,663
Non-interest income	52,278	52,704	(426)
Non-interest expense	89,911	80,580	(9,331)
Provision for income taxes	3,664	2,885	(779)
Net income	\$ 111,151	\$ 104,834	\$ 6,317

**Net Interest Income****Changes in Net Interest Income**

(in thousands)

For the three months ended March 31	2022 vs 2021
Changes in volume	\$ 12,250
Changes in interest rates	1,573
Changes in non-accrual income and other	367
Net change	\$ 14,190

**Non-Interest Expense**

The change in non-interest expense was primarily due to the increase in salaries and employee benefits related to increased staffing levels and higher software and technology expenses due to association initiatives.

**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 April 30, 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 March 31, 2022, or December 31, 2021.

Total members' equity increased \$57.2 million from December 31, 2021, primarily due to net income for the period partially offset by patronage distribution accruals.

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

#### Regulatory Capital Requirements and Ratios

As of:	March 31, 2022	December 31, 2021	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	16.8%	17.9%	4.5%	2.5%	7.0%
Tier 1 capital ratio	16.8%	17.9%	6.0%	2.5%	8.5%
Total capital ratio	17.1%	18.2%	8.0%	2.5%	10.5%
Permanent capital ratio	16.8%	18.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	15.9%	16.9%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	15.6%	18.1%	1.5%	N/A	1.5%

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

#### CERTIFICATION

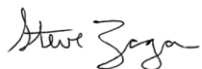
The undersigned have reviewed the March 31, 2022, Quarterly Report of Farm Credit Mid-America, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Andrew Wilson  
Chair of the Board  
Farm Credit Mid-America, ACA



Daniel Wagner  
President and Chief Executive Officer  
Farm Credit Mid-America, ACA



Steve Zagar  
Chief Financial Officer  
Farm Credit Mid-America, ACA

May 10, 2022

# CONSOLIDATED STATEMENTS OF CONDITION

*Farm Credit Mid-America, ACA*

*(in thousands)*

*(Unaudited)*

<b>As of:</b>	<b>March 31,</b>	<b>December 31,</b>
	<b>2022</b>	<b>2021</b>
<b>ASSETS</b>		
Loans	\$ 27,799,055	\$ 27,257,721
Allowance for loan losses	66,903	70,723
Net loans	27,732,152	27,186,998
Investment in AgriBank, FCB	870,091	864,105
Investment securities	800,195	834,625
Accrued interest receivable	189,052	202,544
Assets held for lease, net	31,997	36,774
Other assets	399,949	416,273
<b>Total assets</b>	<b>\$ 30,023,436</b>	<b>\$ 29,541,319</b>
<b>LIABILITIES</b>		
Note payable to AgriBank, FCB	\$ 24,332,050	\$ 23,745,489
Accrued interest payable	90,354	88,774
Deferred tax liabilities, net	6,256	4,068
Patronage distribution payable	56,161	210,000
Other liabilities	112,290	123,822
<b>Total liabilities</b>	<b>24,597,111</b>	<b>24,172,153</b>
Contingencies and commitments (Note 4)		
<b>MEMBERS' EQUITY</b>		
Capital stock and participation certificates	80,664	80,285
Unallocated surplus	5,346,532	5,289,781
Accumulated other comprehensive loss	(871)	(900)
<b>Total members' equity</b>	<b>5,426,325</b>	<b>5,369,166</b>
<b>Total liabilities and members' equity</b>	<b>\$ 30,023,436</b>	<b>\$ 29,541,319</b>

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Mid-America, ACA

(in thousands)

(Unaudited)

<b>For the period ended March 31</b>	<i>Three Months Ended</i>	
	<b>2022</b>	<b>2021</b>
<b>Interest income</b>	<b>\$ 240,153</b>	<b>\$ 221,244</b>
<b>Interest expense</b>	<b>90,368</b>	<b>85,649</b>
Net interest income	<b>149,785</b>	<b>135,595</b>
<b>Reversal of credit losses</b>	<b>(2,663)</b>	<b>--</b>
Net interest income after reversal of credit losses	<b>152,448</b>	<b>135,595</b>
<b>Non-interest income</b>		
Patronage income	<b>39,678</b>	<b>34,575</b>
Financially related services income	<b>759</b>	<b>483</b>
Fee income	<b>11,410</b>	<b>11,078</b>
Operating lease income	<b>1,271</b>	<b>4,245</b>
Other non-interest income, net	<b>(840)</b>	<b>2,323</b>
Total non-interest income	<b>52,278</b>	<b>52,704</b>
<b>Non-interest expense</b>		
Salaries and employee benefits	<b>55,055</b>	<b>51,430</b>
Other operating expense	<b>34,865</b>	<b>28,955</b>
Other non-interest expense, net	<b>(9)</b>	<b>195</b>
Total non-interest expense	<b>89,911</b>	<b>80,580</b>
Income before income taxes	<b>114,815</b>	<b>107,719</b>
<b>Provision for income taxes</b>	<b>3,664</b>	<b>2,885</b>
Net income	<b>\$ 111,151</b>	<b>\$ 104,834</b>
<b>Other comprehensive income</b>		
Employee benefit plans activity	<b>\$ 29</b>	<b>\$ 27</b>
Total other comprehensive income	<b>29</b>	<b>27</b>
Comprehensive income	<b>\$ 111,180</b>	<b>\$ 104,861</b>

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

## CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*Farm Credit Mid-America, ACA*

*(in thousands)*

*(Unaudited)*

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2020	\$ 77,157	\$ 5,068,119	\$ (948)	\$ 5,144,328
Net income	--	104,834	--	104,834
Other comprehensive income	--	--	27	27
Unallocated surplus designated for patronage distributions	--	(66,489)	--	(66,489)
Capital stock and participation certificates issued	2,785	--	--	2,785
Capital stock and participation certificates retired	(2,050)	--	--	(2,050)
<b>Balance at March 31, 2021</b>	<b>\$ 77,892</b>	<b>\$ 5,106,464</b>	<b>\$ (921)</b>	<b>\$ 5,183,435</b>
Balance at December 31, 2021	\$ 80,285	\$ 5,289,781	\$ (900)	\$ 5,369,166
Net income	--	111,151	--	111,151
Other comprehensive income	--	--	29	29
Unallocated surplus designated for patronage distributions	--	(54,400)	--	(54,400)
Capital stock and participation certificates issued	2,286	--	--	2,286
Capital stock and participation certificates retired	(1,907)	--	--	(1,907)
<b>Balance at March 31, 2022</b>	<b>\$ 80,664</b>	<b>\$ 5,346,532</b>	<b>\$ (871)</b>	<b>\$ 5,426,325</b>

*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 three months ended March 31, 2022, are not necessarily indicative of the results to be expected for the year ending December 31, 2022. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2021 (2021 Annual Report).

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

#### Recently Issued or Adopted Accounting Pronouncements

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

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

### NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

#### Loans by Type

(dollars in thousands)

As of:	March 31, 2022		December 31, 2021	
	Amount	%	Amount	%
Real estate mortgage	\$ 17,918,336	64.5%	\$ 17,421,250	63.9%
Production and intermediate-term	4,237,089	15.2%	4,689,759	17.2%
Agribusiness	3,394,726	12.2%	2,883,053	10.6%
Rural residential real estate	902,388	3.2%	888,414	3.3%
Finance leases and other	1,346,516	4.9%	1,375,245	5.0%
Total	\$ 27,799,055	100.0%	\$ 27,257,721	100.0%

The finance leases and other category is primarily composed of certain assets originated under the mission related investment authority and rural infrastructure related loans, as well as lease receivables.



## Delinquency

### Aging Analysis of Loans

(in thousands) As of March 31, 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	\$ 24,336	\$ 43,054	\$ 67,390	\$ 17,969,756	\$ 18,037,146	\$ 22,715
Production and intermediate-term	10,253	40,136	50,389	4,222,908	4,273,297	30,088
Agribusiness	166	108	274	3,406,677	3,406,951	--
Rural residential real estate	3,211	1,344	4,555	900,661	905,216	88
Finance leases and other	137,028	66,366	203,394	1,157,424	1,360,818	66,197
Total	\$ 174,994	\$ 151,008	\$ 326,002	\$ 27,657,426	\$ 27,983,428	\$ 119,088

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	\$ 15,005	\$ 23,299	\$ 38,304	\$ 17,516,294	\$ 17,554,598	\$ --
Production and intermediate-term	3,403	10,818	14,221	4,710,918	4,725,139	--
Agribusiness	--	105	105	2,894,400	2,894,505	--
Rural residential real estate	3,705	1,705	5,410	885,749	891,159	--
Finance leases and other	114,838	67,288	182,126	1,207,899	1,390,025	67,123
Total	\$ 136,951	\$ 103,215	\$ 240,166	\$ 27,215,260	\$ 27,455,426	\$ 67,123

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:	March 31, 2022	December 31, 2021
Volume with specific allowance	\$ 9,863	\$ 11,669
Volume without specific allowance	256,749	213,180
Total risk loans	\$ 266,612	\$ 224,849
Total specific allowance	\$ 5,662	\$ 7,465
<b>For the three months ended March 31</b>	<b>2022</b>	<b>2021</b>
Income on accrual risk loans	\$ 1,030	\$ 931
Income on non-accrual loans	3,433	3,066
Total income on risk loans	\$ 4,463	\$ 3,997
Average risk loans	\$ 239,031	\$ 288,060

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 March 31, 2022.

## Troubled Debt Restructurings (TDRs)

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

We completed TDRs of certain production and intermediate-term loans during the three months ended March 31, 2022, and 2021. Our recorded investment in these loans just prior to and immediately following restructuring was \$104 thousand and \$48 thousand during the three months ended March 31, 2022, and 2021, respectively. The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment. The primary type of modification included interest rate reduction below market.

**TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted During the Three Months Ended March 31,**

(in thousands)	2022	2021
Real estate mortgage	\$ 449	\$ 110
Production and intermediate-term	--	36
Total	\$ 449	\$ 146

**TDRs Outstanding**

(in thousands)	March 31, 2022	December 31, 2021
<b>As of:</b>		
Accrual status:		
Real estate mortgage	\$ 11,419	\$ 12,411
Production and intermediate-term	1,881	1,880
Rural residential real estate	1,442	1,480
Total TDRs in accrual status	\$ 14,742	\$ 15,771
Non-accrual status:		
Real estate mortgage	\$ 7,899	\$ 9,299
Production and intermediate-term	1,965	2,100
Rural residential real estate	342	350
Total TDRs in non-accrual status	\$ 10,206	\$ 11,749
Total TDRs:		
Real estate mortgage	\$ 19,318	\$ 21,710
Production and intermediate-term	3,846	3,980
Rural residential real estate	1,784	1,830
Total TDRs	\$ 24,948	\$ 27,520

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2022.

**Allowance for Loan Losses**

**Changes in Allowance for Loan Losses**

(in thousands)	2022	2021
<b>Three months ended March 31</b>		
Balance at beginning of period	\$ 70,723	\$ 82,867
Reversal of loan losses	(3,075)	--
Loan recoveries	553	876
Loan charge-offs	(1,298)	(1,475)
Balance at end of period	\$ 66,903	\$ 82,268

The "Reversal of credit losses" in the Consolidated Statements of Comprehensive Income includes a reversal of 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)	2022	2021
<b>For the three months ended March 31</b>		
Provision for credit losses	\$ 412	\$ --
<b>As of:</b>	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Accrued credit losses	\$ 7,723	\$ 7,310

**NOTE 3: INVESTMENT SECURITIES**

We held investment securities of \$800.2 million at March 31, 2022, and \$834.6 million at December 31, 2021. Our investment securities consisted of pools of loans guaranteed by the Small Business Administration (SBA), except for \$6.0 million at March 31, 2022, and \$6.1 million at December 31, 2021, of which were not guaranteed.

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

Our investments are either mortgage-backed securities (MBS), which are generally longer-term investments, or asset-backed securities (ABS), which are generally shorter-term investments. SBA guaranteed investments may be comprised of either MBS or ABS.

#### Additional Investment Securities Information

(dollars in thousands)	Weighted Average Yield	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>As of March 31, 2022</b>					
MBS	0.4%	\$ 576,855	\$ 4	\$ 52,391	\$ 524,468
ABS	0.6%	223,340	--	16,459	206,881
Total	0.5%	\$ 800,195	\$ 4	\$ 68,850	\$ 731,349
As of December 31, 2021	Weighted Average Yield	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
MBS	0.6%	\$ 592,533	\$ 8,528	\$ 2,763	\$ 598,298
ABS	0.8%	242,092	7,553	207	249,438
Total	0.7%	\$ 834,625	\$ 16,081	\$ 2,970	\$ 847,736

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled \$989 thousand and \$1.4 million for the three months ended March 31, 2022, and 2021, respectively.

#### Contractual Maturities of Investment Securities

(in thousands)	Amortized Cost
<b>As of March 31, 2022</b>	
Less than one year	\$ 16
One to five years	2,113
Five to ten years	124,026
More than ten years	674,040
Total	\$ 800,195

A summary of investments in an unrealized loss position presented by the length of time the investments have been in a continuous unrealized loss position follows:

(in thousands)	Less than 12 months		Greater than 12 months	
<b>As of March 31, 2022</b>	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	\$ 487,378	\$ 47,457	\$ 36,679	\$ 4,934
ABS	183,437	13,579	23,444	2,880
Total	\$ 670,815	\$ 61,036	\$ 60,123	\$ 7,814
As of December 31, 2021	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	\$ 221,503	\$ 2,681	\$ 3,887	\$ 82
ABS	28,816	207	--	--
Total	\$ 250,319	\$ 2,888	\$ 3,887	\$ 82

Unrealized losses associated with investment securities are not considered to be other-than-temporary due to the 100% guarantee of the principal by the U.S. government. However, the premiums paid to purchase the investment are not guaranteed and are amortized over the weighted average maturity of each loan as a reduction of interest income. Repayment of principal is assessed at least quarterly, and any remaining unamortized premium is taken as a reduction to interest income if principal repayment is unlikely, or when a demand for payment is made for the guarantee. At March 31, 2022, the majority of the \$68.9 million unrealized loss represents unamortized premium.

**NOTE 4: CONTINGENCIES AND COMMITMENTS**

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

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

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

**NOTE 5: FAIR VALUE MEASUREMENTS**

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

We did not have any assets or liabilities measured at fair value on a recurring basis at March 31, 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 March 31, 2022	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	\$ --	\$ --	\$ 4,410	\$ 4,410
Other property owned	--	--	1,142	1,142

As of December 31, 2021	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	\$ --	\$ --	\$ 4,415	\$ 4,415
Other property owned	--	--	1,348	1,348

**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.

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

**NOTE 6: SUBSEQUENT EVENTS**

We have evaluated subsequent events through May 10, 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.