



Delta Agricultural Credit Association, ACA

Quarterly Report
September 30, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Delta Agricultural Credit Association, ACA and its subsidiaries, Delta Agricultural Credit Association, FLCA and Delta Agricultural Credit Association, 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, 2020 (2020 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 2020 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.

COVID-19 PANDEMIC

As domestic public health measures have been implemented to limit the spread of COVID-19, including the availability of vaccines, many or all restrictions have been lifted across the United States (U.S.). While the emergence of COVID-19 variants may negatively impact economic conditions, the overall economy continues to recover, and the outlook is positive for many sectors, including agriculture. Most recently, the federal government has announced a vaccine mandate for certain employers.

The extent to which the COVID-19 pandemic continues to impact the Association will depend on future developments that are highly uncertain and cannot be predicted. However, we have weathered the significant challenges presented to date. Our business continuity response has allowed us to continue to serve our mission, and a remote work environment allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. We have not had any significant changes to internal controls over financial reporting due to working remotely.

AGRICULTURAL AND ECONOMIC CONDITIONS

Our territory is located in rural southeast Arkansas. Crop, timber and poultry production are the primary agricultural enterprises that influence our portfolio. The major stress in our territory is in field crop enterprises, which has been mitigated significantly by the current Farm Bill, Coronavirus Food Assistance Program payments and recent commodity price increases. Most area commodities are being negatively affected by the current U.S. tariff and COVID-19 virus threats. The U.S. government recognizes the need for additional support to cushion the negative effects of the Peoples Republic of China tariffs and COVID-19.

The current farm bill will provide some cushion to the decline of local field crop commodity prices. Additional support from the U.S. government for the farm sector is expected given recent history. Recently corn, rice and soybean prices have received a boost from market forces, which should help field crop enterprises. The crop land rents have declined slightly and are tied to the equivalence of the predominant share crop rent values. Although there is intermittent economic pressure in crop production, crop rents are still attractive to land owners and investors who represent the majority of the farmland buyers.

Poultry production continues to show profitable margins but new grower contracts and new poultry facility construction have declined significantly from the peak six years ago. Beef cattle prices are adequate compared to the cost of production and provide profitability for the average producer. Due to the

loss of demand, pine timber pricing has returned to its weak position after temporarily increasing in early 2019. Only a small portion of our portfolio has repayment coming from consumer income, which has seen the greatest impact from the COVID-19 economic situation.

The overall field crops, livestock, poultry and timber economies are sustainable. The COVID-19 pandemic has not destabilized our regional commerce. Our Association is experiencing an acceptable economic environment at this time.

LOAN PORTFOLIO

Loan Portfolio

Total loans were \$42.6 million at September 30, 2021, an increase of \$2.1 million from December 31, 2020. The increase was primarily due to seasonal credit needs of borrowers with production and intermediate-term loans, which was partially offset by annual repayments on real estate mortgage loans.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2020. Adversely classified loans increased to 2.0% of the portfolio at September 30, 2021, from 1.3% of the portfolio at December 31, 2020. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At September 30, 2021, \$19.4 million of our loans were, substantially, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)	September 30,	December 31,
As of:	2021	2020
Loans:		
Nonaccrual	\$ --	\$ --
Accruing restructured	282	373
Accruing loans 90 days or more past due	--	--
Total risk loans	282	373
Other property owned	445	445
Total risk assets	<u>\$ 727</u>	<u>\$ 818</u>
Total risk loans as a percentage of total loans	0.7%	0.9%
Nonaccrual loans as a percentage of total loans	--	--
Current nonaccrual loans as a percentage of total nonaccrual loans	--	--
Total delinquencies as a percentage of total loans	0.0%	0.2%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2020, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

The accruing restructured loan balance consists of one loan in the production and intermediate-term loan category. The decrease in the loan balance is due to pay down on the loan during the second quarter of 2021.

The decrease in total delinquencies as a percentage of total loans was primarily due to a decrease in past due loans in our production and intermediate-term loan category.

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:	September 30,	December 31,
	2021	2020
Allowance as a percentage of:		
Loans	0.2%	0.2%
Total risk loans	27.0%	20.4%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2021.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the nine months ended September 30	2021	2020
Net (loss) income	\$ (13)	\$ 287
Return on average assets	(0.0%)	0.8%
Return on average members' equity	(0.2%)	3.8%

Changes presented in the profitability information chart relate directly to:

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

Changes in Significant Components of Net Income

(in thousands)	2021	2020	Decrease in net (loss) income
For the nine months ended September 30			
Net interest income	\$ 1,111	\$ 1,206	\$ (95)
Non-interest income	165	185	(20)
Non-interest expense	1,287	1,104	(183)
Provision for income taxes	2	--	(2)
Net (loss) income	\$ (13)	\$ 287	\$ (300)

Non-Interest Income

The change in non-interest income was primarily due to patronage income. We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

Patronage Income

(in thousands)

For the nine months ended September 30	2021	2020
Patronage from AgriBank	\$ 131	\$ 160
Other patronage	4	7
Total patronage income	\$ 135	\$ 167

Patronage from AgriBank primarily includes wholesale patronage. All patronage distributions from AgriBank are in the form of either cash or AgriBank stock and determined based on actual financial results, projections, and long-term capital goals.

Non-Interest Expense

The change in non-interest expense was primarily related to increases in purchased services due to higher consulting fees during the nine months ended September 30, 2021, compared to the same period of 2020.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matured on May 31, 2021, and was renewed for \$50.0 million with a maturity date of November 30, 2021. We are currently in the process of renegotiating the note payable. 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 September 30, 2021, or December 31, 2020.

Total members' equity decreased \$18 thousand from December 31, 2020, primarily due to net loss for the period.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 6 in our 2020 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	September 30, 2021	December 31, 2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	26.4%	26.8%	4.5%	2.5%	7.0%
Tier 1 capital ratio	26.4%	26.8%	6.0%	2.5%	8.5%
Total capital ratio	26.6%	27.0%	8.0%	2.5%	10.5%
Permanent capital ratio	27.5%	27.3%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	18.8%	18.9%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	18.5%	18.7%	1.5%	N/A	1.5%

Capital ratios are directly impacted by the changes in capital, as more fully explained in this section, the changes in assets, as discussed in the Loan Portfolio section, and off-balance sheet commitments, as disclosed in Note 10 in our 2020 Annual Report.

OTHER MATTERS

Governance

On July 1, 2021, our Board of Directors approved a preliminary resolution to proceed with a plan to voluntarily liquidate and dissolve the Association (the Plan). The Board of Directors has determined that it is in the best interests of Delta to wind up its affairs and voluntarily dissolve. In order for liquidation and dissolution to occur, the Plan must be approved by the FCA and a majority of the Association's voting stockholders voting, in person or by written proxy, at a duly authorized stockholders meeting. AgriBank must approve certain aspects of the Plan. Delta has commenced activities associated with obtaining such approvals over the upcoming months; however, the ultimate timing is uncertain and subject to multiple considerations.

CERTIFICATION

The undersigned have reviewed the September 30, 2021, Quarterly Report of Delta Agricultural Credit Association, 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.



Mike Norris
Chairperson of the Board
Delta Agricultural Credit Association



Mark W. Kaufman
Chief Executive Officer
Delta Agricultural Credit Association



Mary Ann Johnson
Chief Financial Officer
Delta Agricultural Credit Association

November 9, 2021

CONSOLIDATED STATEMENTS OF CONDITION

Delta Agricultural Credit Association

(in thousands)

(Unaudited)

As of:	September 30, 2021	December 31, 2020
ASSETS		
Loans	\$ 42,637	\$ 40,507
Allowance for loan losses	76	76
Net loans	42,561	40,431
Investment in AgriBank, FCB	1,300	1,300
Accrued interest receivable	543	604
Other property owned	445	445
Other assets	746	684
Total assets	\$ 45,595	\$ 43,464
LIABILITIES		
Note payable to AgriBank, FCB	\$ 34,769	\$ 32,933
Accrued interest payable	121	133
Patronage distribution payable	--	135
Other liabilities	642	182
Total liabilities	35,532	33,383
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Protected members' equity	7	7
Capital stock and participation certificates	145	150
Unallocated surplus	9,911	9,924
Total members' equity	10,063	10,081
Total liabilities and members' equity	\$ 45,595	\$ 43,464

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

CONSOLIDATED STATEMENTS OF INCOME

Delta Agricultural Credit Association

(in thousands)

(Unaudited)

For the period ended September 30	Three Months Ended		Nine Months Ended	
	2021	2020	2021	2020
Interest income	\$ 557	\$ 666	\$ 1,456	\$ 1,776
Interest expense	121	171	345	570
Net interest income	436	495	1,111	1,206
Provision for loan losses	--	--	--	--
Net interest income after provision for loan losses	436	495	1,111	1,206
Non-interest income				
Patronage income	47	64	135	167
Financially related services income	--	--	1	1
Fee income	18	4	29	10
Allocated Insurance Reserve Accounts distribution	--	--	--	6
Other non-interest income	--	1	--	1
Total non-interest income	65	69	165	185
Non-interest expense				
Salaries and employee benefits	252	244	698	669
Other operating expense	215	129	578	426
Other non-interest expense	4	9	11	9
Total non-interest expense	471	382	1,287	1,104
Income (loss) before income taxes	30	182	(11)	287
Provision for income taxes	--	--	2	--
Net income (loss)	\$ 30	\$ 182	\$ (13)	\$ 287

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Delta Agricultural Credit Association

(in thousands)

(Unaudited)

		Protected Members' Equity		Capital Stock and Participation Certificates		Unallocated Surplus		Total Members' Equity
Balance at December 31, 2019	\$	7	\$	155	\$	9,721	\$	9,883
Net income		--		--		287		287
Capital stock and participation certificates issued		--		11		--		11
Capital stock and participation certificates retired		--		(12)		--		(12)
Balance at September 30, 2020	\$	7	\$	154	\$	10,008	\$	10,169
Balance at December 31, 2020	\$	7	\$	150	\$	9,924	\$	10,081
Net loss		--		--		(13)		(13)
Capital stock and participation certificates issued		--		5		--		5
Capital stock and participation certificates retired		--		(10)		--		(10)
Balance at September 30, 2021	\$	7	\$	145	\$	9,911	\$	10,063

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 nine months ended September 30, 2021, are not necessarily indicative of the results to be expected for the year ending December 31, 2021. 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, 2020 (2020 Annual Report).

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

Significant Accounting Policies

Effective March 2021, a change in accounting policy was elected to use the fair value method for calculating the market-related value of assets for the fixed-income pension assets. This change in accounting principle did not have a material impact on the financial statements.

During March 2021, we adopted Accounting Standards Update (ASU) 2020-04 "Reference Rate Reform, Topic 848" and ASU 2021-01, which further amended Topic 848. The guidance provides optional expedients and exceptions for applying Generally Accepted Accounting Principles to contracts and other transactions affected by reference rate reform. The adoption of this standard has not had a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined no other standards are applicable to our business through our anticipated dissolution date.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	September 30, 2021		December 31, 2020	
	Amount	%	Amount	%
Real estate mortgage	\$ 24,426	57.3%	\$ 27,142	67.0%
Production and intermediate-term	18,211	42.7%	13,365	33.0%
Total	\$ 42,637	100.0%	\$ 40,507	100.0%

Delinquency

Aging Analysis of Loans

(in thousands) As of September 30, 2021	30-89 Days Past Due		Total Past Due		Not Past Due or Less than 30 Days Past Due		Total
Real estate mortgage	\$ --	\$ --	\$ --	\$ 24,718	\$ 24,718	\$ 24,718	
Production and intermediate-term	15	15	15	18,447	18,462	18,462	
Total	\$ 15	\$ 15	\$ 15	\$ 43,165	\$ 43,180	\$ 43,180	

As of December 31, 2020	30-89 Days Past Due		Total Past Due		Not Past Due or Less than 30 Days Past Due		Total
Real estate mortgage	\$ 98	\$ 98	\$ 98	\$ 27,460	\$ 27,558	\$ 27,558	
Production and intermediate-term	--	--	--	13,553	13,553	13,553	
Total	\$ 98	\$ 98	\$ 98	\$ 41,013	\$ 41,111	\$ 41,111	

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at September 30, 2021, or December 31, 2020.

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)	September 30,	December 31,
As of:	2021	2020
Volume with specific allowance	\$ --	\$ --
Volume without specific allowance	282	373
Total risk loans	<u>\$ 282</u>	<u>\$ 373</u>
Total specific allowance	\$ --	\$ --
For the nine months ended September 30	2021	2020
Income on accrual risk loans	\$ 15	\$ 19
Reversal on nonaccrual loans	--	(2)
Total income on risk loans	<u>\$ 15</u>	<u>\$ 17</u>
Average risk loans	\$ 322	\$ 758

Note: Accruing loans include accrued interest receivable.

We had \$89 thousand of commitments to lend additional money to borrowers whose loans were classified as risk loans at September 30, 2021.

Troubled Debt Restructurings (TDRs)

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

There were no TDRs that occurred during the nine months ended September 30, 2021, or 2020. In addition, there were no TDRs that defaulted during the nine months ended September 30, 2021, or 2020 in which the modification was within twelve months of the respective reporting period.

TDRs outstanding in the production and intermediate-term loan category totaled \$282 thousand and \$373 thousand, all of which were in accrual status at September 30, 2021, and December 31, 2020, respectively.

Additional commitments to lend to borrowers whose loans have been modified in a TDR were \$89 thousand at September 30, 2021.

Allowance for Loan Losses

Changes in Allowance for Loan Losses		
(in thousands)	2021	2020
Nine months ended September 30		
Balance at beginning of period	\$ 76	\$ 104
Loan charge-offs	--	(28)
Balance at end of period	<u>\$ 76</u>	<u>\$ 76</u>

NOTE 3: CONTINGENCIES AND COMMITMENTS

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

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

NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair

value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2020 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 September 30, 2021, or December 31, 2020.

Non-Recurring Basis

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

Valuation Techniques

Other Property Owned: The fair value of other property owned was \$463 thousand at September 30, 2021 and December 31, 2020, which was valued using Level 3 inputs. Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 9, 2021, 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.