Delta Agricultural Credit Association

Quarterly Report
March 31, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Delta Agricultural Credit Association (the Association) 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, 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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NOTICE OF SIGNIFICANT OR MATERIAL EVENTS

In 2021, our board of directors determined that it was in the best interests of the Association to voluntarily dissolve and approved a preliminary resolution to proceed with a plan to voluntarily liquidate and dissolve the Association (the Plan). On March 17, 2022, the FCA preliminarily approved the Plan. On April 14, 2022, our stockholders approved the Plan, which includes an agreement to sell our loan portfolio to another District Association. Subsequently, on April 19, 2022, the FCA provided final approval of the Plan. The sale of our entire loan portfolio to AgHeritage Farm Credit Services, ACA occurred on May 1, 2022. The ultimate timing of the final liquidation is uncertain and subject to multiple considerations.

FORWARD-LOOKING INFORMATION

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

AGRICULTURAL AND ECONOMIC CONDITIONS

The Association's territory is located in rural southeast Arkansas. Crop and poultry production are the primary agricultural enterprises that influence our portfolio. The current Farm Bill will provide support for local crop enterprises when market forces do not provide sustainability. Coronavirus Food Assistance Program (CFAP) payments and other government support has helped sustain many sectors of agriculture during the COVID-19 pandemic. The new risk for our area is inflation. It has affected most areas of our economy; however, higher prices for most producers have been able to offset this risk.

The crop land rents, which are primarily share rents, are stable. The predominant share is one quarter of all crops and government payments, or that equivalent, in cash rent. Although there is intermittent economic pressure in crop production, crop rents are still attractive to both land owners and investors (the majority of the farmland buyers).

Non-farm income has seen the greatest negative economic impact from the COVID-19 pandemic. A very small portion of our portfolio relies on non-farm income for repayment, and that portion has not significantly impacted our portfolio volumes.

Poultry production continues to show profitable margins. New grower contracts and new poultry facility construction has surfaced after several years of decline. This enterprise is a significant part of our loan portfolio.

Beef cattle prices are adequate in comparison to the cost of production, and the prices provide for profitability for the average producer. Pine timber is the predominant forest product for our region. Due to an abundance of pine timber inventory, stumpage prices remain low. Although these enterprises are not a significant part of our portfolio, they are integral to the economy of our territory.

The overall local field crops, livestock, poultry, and timber economies remain sustainable. The effects of the COVID-19 pandemic has not weakened our regional commerce. Our borrowers continue to have a sustainable economic environment.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $30.7 million at March 31, 2022, a decrease of $3.4 million from December 31, 2021. The decrease was primarily due to repayments and minimal new growth in both the real estate mortgage and production and intermediate-term portfolios. We are limiting originations of new loans due to our proposed plan for liquidation and dissolution.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2021. Adversely classified loans increased to 3.6% of the portfolio at March 31, 2022, from 2.5% of the portfolio at December 31, 2021. Adversely classified loans are loans we have identified as showing some credit weakness according to our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At March 31, 2022, $14.5 million of our loans were substantially guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**March 31, 2022**	December 31, 2021
Loans:		
Nonaccrual	**$ --**	$ --
Accruing restructured	**--**	286
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**--**	286
Other property owned	**--**	--
Total risk assets	**$ --**	$ 286
Total risk loans as a percentage of total loans	**--**	0.8%
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	**0.3%**	--

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2021, and we no longer have risk assets as of March 31, 2022.

The accruing restructured loan balance as of December 31, 2021, consisted of one loan in the production and intermediate-term loan category. The decrease in the accruing restructured balance is due to the payoff of that loan during the first quarter of 2022.

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	**0.1%**	0.1%
Total risk loans	**--**	16.1%

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 loss	**$ (34)**	$ (12)
Return on average assets	**(0.4%)**	(0.1%)
Return on average members' equity	**(1.4%)**	(0.5%)

Changes presented in the profitability information chart relate directly to:

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

Changes in Significant Components of Net Loss

(in thousands) For the three months ended March 31	2022	2021	(Decrease) increase in net loss
Net interest income	**$ 261**	$ 318	**$ (57)**
Non-interest income	**36**	43	**(7)**
Non-interest expense	**331**	371	**40**
Provision for income taxes	**--**	2	**2**
Net loss	**$ (34)**	$ (12)	**$ (22)**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the three months ended March 31	2022 vs 2021
Changes in volume	**$ (46)**
Changes in interest rates	**(11)**
Net change	**$ (57)**

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. AgriBank may distribute patronage in the form of cash or stock. All other patronage from other Farm Credit institutions is typically distributed in cash.

Patronage Income

(in thousands) For the three months ended March 31	2022	2021
Patronage from AgriBank	**$ 27**	$ 37
Other patronage	**3**	4
Total patronage income	**$ 30**	$ 41

Patronage from AgriBank primarily includes wholesale patronage.

Non-Interest Expense

The change in non-interest expense was primarily related to a decrease in salaries and employee benefits expense due to the resignation of a senior officer effective December 31, 2021.

Provision for Income Taxes

The change in provision for income taxes was primarily related to our estimate of taxes based on taxable income.

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 May 31, 2022. We intend to renegotiate the note payable no later than the maturity date and as necessary, through any liquidation and dissolution time period. 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 in the future, including through any liquidation and dissolution time period. 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 decreased $32 thousand from December 31, 2021, 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 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	**33.8%**	29.6%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**33.8%**	29.6%	6.0%	2.5%	8.5%
Total capital ratio	**34.0%**	29.9%	8.0%	2.5%	10.5%
Permanent capital ratio	**35.3%**	30.6%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**26.7%**	22.1%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**26.3%**	21.8%	1.5%	N/A	1.5%

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

CERTIFICATION

The undersigned have reviewed the March 31, 2022, Quarterly Report of Delta Agricultural Credit Association, 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 and Audit Committee
Delta Agricultural Credit Association

Mark W. Kaufman
Chief Executive Officer
Delta Agricultural Credit Association

Mary Ann Johnson
Chief Financial Officer
Delta Agricultural Credit Association

May 4, 2022

CONSOLIDATED STATEMENTS OF CONDITION

Delta Agricultural Credit Association

(in thousands)

(Unaudited)

As of:	March 31, 2022	December 31, 2021
ASSETS		
Loans	**$ 30,706**	$ 34,118
Allowance for loan losses	**46**	46
Net loans	**30,660**	34,072
Investment in AgriBank, FCB	**1,327**	1,327
Accrued interest receivable	**366**	505
Other assets	**806**	822
Total assets	**$ 33,159**	$ 36,726
LIABILITIES		
Note payable to AgriBank, FCB	**$ 22,629**	$ 26,117
Accrued interest payable	**89**	106
Other liabilities	**482**	512
Total liabilities	**23,200**	26,735
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Protected members' equity	**7**	7
Capital stock and participation certificates	**147**	145
Unallocated surplus	**9,805**	9,839
Total members' equity	**9,959**	9,991
Total liabilities and members' equity	**$ 33,159**	$ 36,726

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

CONSOLIDATED STATEMENTS OF INCOME

Delta Agricultural Credit Association
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31	**2022**	2021
Interest income	**$ 350**	$ 430
Interest expense	**89**	112
Net interest income	**261**	318
Provision for loan losses	**--**	--
Net interest income after provision for loan losses	**261**	318
Non-interest income		
Patronage income	**30**	41
Fee income	**6**	2
Total non-interest income	**36**	43
Non-interest expense		
Salaries and employee benefits	**177**	206
Other operating expense	**154**	161
Other non-interest expense	**--**	4
Total non-interest expense	**331**	371
Income before income taxes	**(34)**	(10)
Provision for income taxes	**--**	2
Net loss	**$ (34)**	$ (12)

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, 2020	$ 7	$ 150	$ 9,924	$ 10,081
Net loss	--	--	(12)	(12)
Capital stock and participation certificates issued	--	2	--	2
Capital stock and participation certificates retired	--	(4)	--	(4)
Balance at March 31, 2021	$ 7	$ 148	$ 9,912	$ 10,067
Balance at December 31, 2021	$ 7	$ 145	$ 9,839	$ 9,991
Net loss	**--**	**--**	**(34)**	**(34)**
Capital stock and participation certificates issued	**--**	**2**	**--**	**2**
Capital stock and participation certificates retired	**--**	**--**	**--**	**--**
Balance at March 31, 2022	**$ 7**	**$ 147**	**$ 9,805**	**$ 9,959**

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 Delta Agricultural Credit Association (the Association) 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.

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 have not yet started the implementation process for this standard as we expect our planned liquidation and dissolution to be complete before the required adoption date.
In March 2022, the FASB issued ASU 2022-02 “Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.” The guidance is effective at the same time that ASU 2016-13 is adopted.	This guidance eliminates the accounting guidance for troubled debt restructurings by creditors in Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings.	We have not yet started the implementation process for this standard as we expect our planned liquidation and dissolution to be complete before the required adoption date.

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	**$**	**22,326**	**72.7%**	$	23,803	69.8%
Production and intermediate-term		**8,380**	**27.3%**		10,315	30.2%
Total	**$**	**30,706**	**100.0%**	$	34,118	100.0%

Delinquency

Aging Analysis of Loans

(in thousands) **As of March 31, 2022**	30-89 Days Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	**$ 89**	**$ 89**	**$ 22,503**	**$ 22,592**
Production and intermediate-term	**--**	**--**	**8,480**	**8,480**
Total	**$ 89**	**$ 89**	**$ 30,983**	**$ 31,072**

As of December 31, 2021	30-89 Days Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	$ --	$ --	$ 24,156	$ 24,156
Production and intermediate-term	--	--	10,467	10,467
Total	$ --	$ --	$ 34,623	$ 34,623

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at March 31, 2022, or December 31, 2021.

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	**$ --**	$ --
Volume without specific allowance	**--**	286
Total risk loans	**$ --**	$ 286
Total specific allowance	**$ --**	$ --
For the three months ended March 31	**2022**	2021
Income on accrual risk loans	**$ 2**	$ 6
Income on nonaccrual loans	**--**	--
Total income on risk loans	**$ 2**	$ 6
Average risk loans	**$ 172**	$ 369

Note: Accruing loans include accrued interest receivable.

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 three months ended March 31, 2022, or 2021. In addition, there were no TDRs that defaulted during the three months ended March 31, 2022, or 2021, in which the modification was within twelve months of the respective reporting period.

There were no TDRs outstanding at March 31, 2022. TDRs outstanding in the production and intermediate-term loan category totaled $286 thousand, all of which were in accrual status at December 31, 2021.

Allowance for Loan Losses

The allowance for loan losses was $46 thousand and $76 thousand at March 31, 2022, and 2021. There was no provision, recoveries, or charge-offs for the three months ended March 31, 2022, or 2021.

NOTE 3: CONTINGENCIES AND COMMITMENTS

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

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

Refer to Note 10 in our 2021 Annual Report for additional detail regarding contingencies and commitments.

NOTE 4: FAIR VALUE MEASUREMENTS

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

We did not have any assets or liabilities measured at fair value on a recurring or non-recurring basis at March 31, 2022, or December 31, 2021.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 4, 2022, which is the date the Consolidated Financial Statements were available to be issued.

On April 14, 2022, our stockholders approved a plan to voluntarily liquidate and dissolve the Association (the Plan), which includes an agreement to sell our loan portfolio to another District Association. Subsequently, on April 19, 2022, the FCA provided final approval of the Plan. The sale of our entire loan portfolio to another District Association occurred on May 1, 2022. Consistent with the terms of the Plan, the loan portfolio was sold at a discount of approximately $260 thousand.

There have been no other material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.