Delta Agricultural Credit Association, ACA

Quarterly Report
March 31, 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

The spread of COVID-19 has created a global public-health crisis that has stifled the world-wide economy, decreased liquidity in fixed income and equity markets, significantly increased unemployment levels and disrupted global supply and demand chains. Unprecedented actions are being taken by governments, businesses, and individuals to slow or contain the spread of COVID-19, including quarantines, stay-at-home orders, school closings, and travel bans that have substantially restricted daily activities and forced many businesses to curtail or cease operations. The impact of COVID-19 on companies is evolving rapidly and its future effects are uncertain.

The extent to which the COVID-19 pandemic impacts the Association will depend on future developments that are highly uncertain and cannot be predicted such as the duration, extent and severity of the pandemic, the continued response by the U.S. government, and how quickly "normal" daily activities resume.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by the current operating environment and the operations of our Association are fully functioning. Our Association followed state directives was able to open our lobby again to customers at the end of March 2021. Also the state mask mandate was lifted for Arkansas on March 31, but individual businesses can still require a mask. We are not requiring them for our customers.

This outbreak puts the economy and agriculture sector in uncharted territory. The overall impact of COVID-19 on U.S. agriculture will depend on the severity and duration of the outbreak. Overall, agriculture will adjust, providing an "essential service" to the U.S. and global consumer.

AGRICULTURAL AND ECONOMIC CONDITIONS

Our territory is located in rural southeast Arkansas. Crop production 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 (CFAP) payments, and recent commodity price increases. The current farm bill will provide support for local crop enterprises.

Corn, rice and soybean prices have recently received a boost from market forces, which should help field crop enterprises. During the fourth quarter of 2020, field crop commodities grown in this area experienced some increase in value. Most farmers had already pre-sold a portion of their crops and did not capture all of the benefits of the strong markets.

The crop land rents, which are primarily shared 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 economic impact from the COVID-19 pandemic situation. 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; however, new grower contracts and new poultry facility construction have declined significantly from the peak seven years ago.

Beef cattle prices are adequate in comparison to the cost of production, and the prices provide for 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.

The overall local field crops, livestock, poultry and timber economies remain sustainable. The effects of the COVID-19 pandemic has not weakened our region commerce. Our Farm Credit Association is experiencing an acceptable economic environment.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $35.7 million at March 31, 2021, a decrease of $4.8 million from December 31, 2020. The decrease was primarily due to seasonal repayments of production and intermediate-term loans and annual repayments on real estate mortgage loans.

Portfolio Credit Quality

The credit quality of our portfolio declined slightly from December 31, 2020. Adversely classified loans increased to 1.5% of the portfolio at March 31, 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 March 31, 2021, $18.7 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**March 31, 2021**	December 31, 2020
Loans:		
Nonaccrual	**$ --**	$ --
Accruing restructured	**371**	373
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**371**	373
Other property owned	**445**	445
Total risk assets	**$ 816**	$ 818
Total risk loans as a percentage of total loans	**1.0%**	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	**--**	0.2%

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly 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 decrease in total delinquencies as a percentage of total loans was primarily due to due to an 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:	**March 31, 2021**	December 31, 2020
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Total risk loans	**20.5%**	20.4%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2021.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31	**2021**	2020
Net (loss) income	**$ (12)**	$ 17
Return on average assets	**(0.1%)**	0.2%
Return on average members' equity	**(0.5%)**	0.7%

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) Income

(in thousands) For the three months ended March 31	**2021**	2020	**(Decrease) increase in net (loss) income**
Net interest income	**$ 318**	$ 333	**$ (15)**
Non-interest income	**43**	52	**(9)**
Non-interest expense	**371**	368	**(3)**
Provision for income taxes	**2**	--	**(2)**
Net (loss) income	**$ (12)**	$ 17	**$ (29)**

Net Interest Income

Changes in Net Interest Income

(in thousands) For the three months ended March 31	**2021 vs 2020**
Changes in volume	**$ (20)**
Changes in interest rates	**5**
Net change	**$ (15)**

Non-Interest Expense

The change in non-interest expense was primarily related to increases in purchased services due to higher consulting fees during the three months ended March 31, 2021, compared to the same period of 2020.

The Farm Credit System insurance expense increased in 2021 primarily due to a higher premium rate charged by Farm Credit System Insurance Corporation (FCSIC) on accrual loans. The premium rate for the first quarter of 2021 was 16 basis points, which increased from 8 basis points compared to the same period in 2020. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on May 31, 2021. 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, 2021, or December 31, 2020.

Total members' equity decreased $14 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:	**March 31, 2021**	December 31, 2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**30.3%**	26.8%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**30.3%**	26.8%	6.0%	2.5%	8.5%
Total capital ratio	**30.6%**	27.0%	8.0%	2.5%	10.5%
Permanent capital ratio	**31.3%**	27.3%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**22.6%**	18.9%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**22.3%**	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

The Board of Directors (the Board) of the Association is pursuing various strategic initiatives, which may impact our structure. The Board has been in discussions with AgriBank regarding these opportunities and has retained counsel to advise the Association on these matters and to represent the Association in its interactions with AgriBank, the FCA, and potential partners.

CERTIFICATION

The undersigned have reviewed the March 31, 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

May 7, 2021

CONSOLIDATED STATEMENTS OF CONDITION

Delta Agricultural Credit Association
(in thousands)
(Unaudited)

As of:		March 31, 2021		December 31, 2020
ASSETS				
Loans	**$**	**35,733**	$	40,507
Allowance for loan losses		**76**		76
Net loans		**35,657**		40,431
Investment in AgriBank, FCB		**1,300**		1,300
Accrued interest receivable		**438**		604
Other property owned		**445**		445
Other assets		**642**		684
Total assets	**$**	**38,482**	$	43,464
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**28,188**	$	32,933
Accrued interest payable		**112**		133
Patronage distribution payable		**--**		135
Other liabilities		**115**		182
Total liabilities		**28,415**		33,383
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Protected members' equity		**7**		7
Capital stock and participation certificates		**148**		150
Unallocated surplus		**9,912**		9,924
Total members' equity		**10,067**		10,081
Total liabilities and members' equity	**$**	**38,482**	$	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 March 31	*Three Months Ended* **2021**	2020
Interest income	**$ 430**	$ 539
Interest expense	**112**	206
Net interest income	**318**	333
Provision for loan losses	**--**	--
Net interest income after provision for loan losses	**318**	333
Non-interest income		
Patronage income	**41**	43
Fee income	**2**	3
Allocated Insurance Reserve Accounts distribution	**--**	6
Total non-interest income	**43**	52
Non-interest expense		
Salaries and employee benefits	**206**	216
Other operating expense	**161**	152
Other non-interest expense	**4**	--
Total non-interest expense	**371**	368
(Loss) income before income taxes	**(10)**	17
Provision for income taxes	**2**	--
Net (loss) income	**$ (12)**	$ 17

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	--	--	17	17
Capital stock and participation certificates issued	--	2	--	2
Capital stock and participation certificates retired	--	(3)	--	(3)
Balance at March 31, 2020	$ 7	$ 154	$ 9,738	$ 9,899
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**

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 Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Income. Our accounting and reporting policies conform to accounting principles generally accepted 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, 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 requires retrospective application. However, the financial statement impact was deemed immaterial to historical and current periods. Therefore, the change was recorded through earnings in the first quarter of 2021.

There have been no other changes in our accounting policies as disclosed in our 2020 Annual Report, except as described in the Recently Issued or Adopted Accounting Pronouncements.

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 March 2020, the FASB issued Accounting Standards Update (ASU) 2020-04 “Reference Rate Reform, Topic 848.” In January 2021, the FASB issued 2021-01 further amending Topic 848. This guidance may be elected and applied prospectively over time from March 12, 2020, through December 31, 2022, as reference rate reform activities occur.	The guidance provides optional expedients and exceptions for applying GAAP to contracts 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 contract terms related to the replacement of the reference rate.	During March 2021, we adopted this standard. To date, the adoption of this standard has not had a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments - Credit Losses." 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 amends 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. We are currently assessing the impact this guidance will have on our financial statements upon adoption, which will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**March 31, 2021**			December 31, 2020		
		Amount	%		Amount	%
Real estate mortgage	**$**	**25,445**	**71.2%**	$	27,142	67.0%
Production and intermediate-term		**10,288**	**28.8%**		13,365	33.0%
Total	**$**	**35,733**	**100.0%**	$	40,507	100.0%

Delinquency

Aging Analysis of Loans

(in thousands) **As of March 31, 2021**		30-89 Days Past Due		Total Past Due		Not Past Due or Less than 30 Days Past Due		Total
Real estate mortgage	**$**	**--**	**$**	**--**	**$**	**25,739**	**$**	**25,739**
Production and intermediate-term		**--**		**--**		**10,432**		**10,432**
Total	**$**	**--**	**$**	**--**	**$**	**36,171**	**$**	**36,171**

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	$	27,460	$	27,558
Production and intermediate-term		--		--		13,553		13,553
Total	$	98	$	98	$	41,013	$	41,111

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at March 31, 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) As of:		**March 31, 2021**		December 31, 2020
Volume with specific allowance	**$**	**--**	$	--
Volume without specific allowance		**371**		373
Total risk loans	**$**	**371**	$	373
Total specific allowance	**$**	**--**	$	--
For the three months ended March 31		**2021**		2020
Income on accrual risk loans	**$**	**6**	$	5
Income on nonaccrual loans		**--**		--
Total income on risk loans	**$**	**6**	$	5
Average risk loans	**$**	**369**	$	472

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, 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 related to the COVID-19 pandemic or 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, 2021, or 2020.

There were no TDRs that defaulted during the three months ended March 31, 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 $371 thousand and $373 thousand, all of which were in accrual status at March 31, 2021, and December 31, 2020, respectively.

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $4 thousand at March 31, 2021.

Allowance for Loan Losses

The allowance for loan losses was $76 thousand and $104 thousand at March 31, 2021 and 2020. There was no provision, recoveries, or charge-offs for the three months ended March 31, 2021, or 2020.

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 March 31, 2021, or December 31, 2020.

Non-Recurring

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 March 31, 2021 and December 31, 2020, which was valued using Level 3 inputs. This 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 May 7, 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.