Farm Credit Services of Mandan, ACA

Quarterly Report
September 30, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Services of Mandan, ACA and its subsidiaries, Farm Credit Services of Mandan, FLCA and Farm Credit Services of Mandan, 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:

Farm Credit Services of Mandan, ACA
Post Office Box 5001
Mandan, ND 58554-5501
(701) 663-6487
www.farmcreditmandan.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.AgriBank.com
FinancialReporting@AgriBank.com

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

A cold, wet spring delayed planting in some counties causing farmers to plant around low lying areas. Some fields qualified for prevent plant payments. Two late spring blizzards caused challenges for cow/calf operations, but provided positive conditions for pasture and hay lands throughout most of our territory. The spring moisture was adequate for small grains, but as conditions began to turn dry in mid-summer, yields on row crops were adversely affected.

Commodity prices for most crops grown in our service area have improved and have provided favorable opportunities for marketing old crop inventories and 2022 production. Higher commodity prices also increased multi-peril crop insurance coverage amounts for 2022.

The demand for real estate continues to strengthen, and land values have generally increased.

Despite some challenges, favorable commodity prices, crop insurance coverage, and government payments should allow nearly all producers to remain viable, obtain financing and continue their farming and ranch operations.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.4 billion at September 30, 2022, an increase of $65.1 million from December 31, 2021. The increase was primarily due to growth in the real estate mortgage portfolio and participation interests in agribusiness and rural infrastructure loans. The increase was partially offset by a decline in traditional production and intermediate-term loans.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2021. Adversely classified loans decreased to 1.4% of the portfolio at September 30, 2022, from 1.9% 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 September 30, 2022, $32.2 million of our loans were substantially guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30, 2022**	December 31, 2021
Loans:		
Nonaccrual	**$ 4,817**	$ 5,250
Accruing restructured	**--**	--
Accruing loans 90 days or more past due	**324**	--
Total risk loans	**5,141**	5,250
Other property owned	**--**	--
Total risk assets	**$ 5,141**	$ 5,250
Total risk loans as a percentage of total loans	**0.4%**	0.4%
Nonaccrual loans as a percentage of total loans	**0.3%**	0.4%
Current nonaccrual loans as a percentage of total nonaccrual loans	**93.6%**	88.9%
Total delinquencies as a percentage of total loans	**0.1%**	0.2%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased slightly from December 31, 2021, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in accruing loans 90 days or more past due was primarily due to real estate loans that have approved servicing actions for either collection or refinancing. The loans are well secured, and full payment is expected. Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. 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:	**September 30, 2022**	December 31, 2021
Allowance as a percentage of:		
Loans	**0.3%**	0.2%
Nonaccrual loans	**76.7%**	61.1%
Total risk loans	**71.9%**	61.1%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2022.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30	**2022**	2021
Net income	**$ 19,733**	$ 22,153
Return on average assets	**1.8%**	2.1%
Return on average members' equity	**8.0%**	9.6%

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) For the nine months ended September 30	2022	2021	Increase (decrease) in net income
Net interest income	$ 27,235	$ 25,473	$ 1,762
Provision for (reversal of) loan losses	492	(959)	(1,451)
Non-interest income	10,017	11,975	(1,958)
Non-interest expense	16,790	15,556	(1,234)
Provision for income taxes	237	698	461
Net income	$ 19,733	$ 22,153	$ (2,420)

Provision for (Reversal of) Loan Losses

The change in the provision for (reversal of) loan losses was related to our estimate of losses in our portfolio for the applicable years.

Non-Interest Income

The change in non-interest income was primarily due to a decrease in fee income due to fees no longer being collected from the Small Business Administration (SBA) for originating Paycheck Protection Plan (PPP) loans. The fee income from this activity totaled $2.6 million for the nine months ended September 30, 2021. No SBA PPP loan fees were collected for the same period in 2022.

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 July 31, 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 September 30, 2022, or December 31, 2021.

Total members' equity increased $13.9 million from December 31, 2021, primarily due to net income for the period which was 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 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:	September 30, 2022	December 31, 2021	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	17.8%	18.3%	4.5%	2.5%	7.0%
Tier 1 capital ratio	17.8%	18.3%	6.0%	2.5%	8.5%
Total capital ratio	18.0%	18.5%	8.0%	2.5%	10.5%
Permanent capital ratio	17.8%	18.4%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	20.4%	21.4%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	20.3%	22.4%	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 September 30, 2022, Quarterly Report of Farm Credit Services of Mandan, 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.

Clair Hauge
Chairperson of the Board
Farm Credit Services of Mandan, ACA

Aaron Vetter
President and Chief Executive Officer
Farm Credit Services of Mandan, ACA

Jennifer Schiermeister
Vice President Finance and Chief Financial Officer
Farm Credit Services of Mandan, ACA

November 4, 2022

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Services of Mandan, ACA
(in thousands)
(Unaudited)

As of:		September 30, 2022		December 31, 2021
ASSETS				
Loans	**$**	**1,435,678**	$	1,370,560
Allowance for loan losses		**3,696**		3,207
Net loans		**1,431,982**		1,367,353
Investment in AgriBank, FCB		**36,155**		34,124
Accrued interest receivable		**19,655**		13,399
Other assets		**25,237**		22,015
Total assets	**$**	**1,513,029**	$	1,436,891
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,159,083**	$	1,098,284
Accrued interest payable		**6,547**		2,863
Deferred tax liabilities, net		**1,069**		832
Patronage distribution payable		**5,963**		7,000
Other liabilities		**5,934**		7,350
Total liabilities		**1,178,596**		1,116,329
Contingencies and commitments (Note 3)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**2,056**		2,098
Unallocated surplus		**333,564**		319,770
Accumulated other comprehensive loss		**(1,187)**		(1,306)
Total members' equity		**334,433**		320,562
Total liabilities and members' equity	**$**	**1,513,029**	$	1,436,891

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Services of Mandan, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
For the period ended September 30	**2022**	2021	**2022**	2021
Interest income	**$ 16,121**	$ 11,273	**$ 40,970**	$ 34,268
Interest expense	**6,547**	2,897	**13,735**	8,795
Net interest income	**9,574**	8,376	**27,235**	25,473
Provision for (reversal of) loan losses	**859**	45	**492**	(959)
Net interest income after provision for (reversal of) loan losses	**8,715**	8,331	**26,743**	26,432
Non-interest income				
Patronage income	**1,776**	1,601	**4,857**	5,067
Financially related services income	**1,346**	875	**3,909**	3,264
Fee income	**446**	376	**1,053**	3,577
Other non-interest income	**94**	10	**198**	67
Total non-interest income	**3,662**	2,862	**10,017**	11,975
Non-interest expense				
Salaries and employee benefits	**3,249**	3,215	**10,107**	9,656
Other operating expense	**2,200**	1,929	**6,683**	5,900
Total non-interest expense	**5,449**	5,144	**16,790**	15,556
Income before income taxes	**6,928**	6,049	**19,970**	22,851
Provision for (benefit from) income taxes	**24**	(30)	**237**	698
Net income	**$ 6,904**	$ 6,079	**$ 19,733**	$ 22,153
Other comprehensive income				
Employee benefit plans activity	**$ 39**	$ 27	**$ 119**	$ 81
Total other comprehensive income	**39**	27	**119**	81
Comprehensive income	**$ 6,943**	$ 6,106	**$ 19,852**	$ 22,234

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Services of Mandan, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2020	$ 2,084	$ 298,235	$ (1,064)	$ 299,255
Net income	--	22,153	--	22,153
Other comprehensive income	--	--	81	81
Unallocated surplus designated for patronage distributions	--	(3,675)	--	(3,675)
Capital stock and participation certificates issued	94	--	--	94
Capital stock and participation certificates retired	(83)	--	--	(83)
Balance at September 30, 2021	$ 2,095	$ 316,713	$ (983)	$ 317,825
Balance at December 31, 2021	$ 2,098	$ 319,770	$ (1,306)	$ 320,562
Net income	**--**	**19,733**	**--**	**19,733**
Other comprehensive income	**--**	**--**	**119**	**119**
Unallocated surplus designated for patronage distributions	**--**	**(5,939)**	**--**	**(5,939)**
Capital stock and participation certificates issued	**53**	**--**	**--**	**53**
Capital stock and participation certificates retired	**(95)**	**--**	**--**	**(95)**
Balance at September 30, 2022	**$ 2,056**	**$ 333,564**	**$ (1,187)**	**$ 334,433**

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, 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 Services of Mandan, ACA and its subsidiaries Farm Credit Services of Mandan, FLCA and Farm Credit Services of Mandan, 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.	We expect to adopt the standard as of January 1, 2023. We have completed development and validation of our model to estimate credit losses for our loan portfolio. The implementation of processes, procedures, internal controls, and policy updates are substantially complete. We are also in the process of drafting disclosures. 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 refinancings 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:		**September 30, 2022**			December 31, 2021	
		Amount	%		Amount	%
Real estate mortgage	**$**	**543,471**	**37.9%**	$	531,010	38.7%
Production and intermediate-term		**327,738**	**22.8%**		346,117	25.3%
Agribusiness		**373,129**	**26.0%**		319,716	23.3%
Other		**191,340**	**13.3%**		173,717	12.7%
Total	**$**	**1,435,678**	**100.0%**	$	1,370,560	100.0%

The other category is primarily composed of rural infrastructure related loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of September 30, 2022**		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less than 30 Days Past Due		Total		Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$**	**--**	**$**	**324**	**$**	**324**	**$**	**555,102**	**$**	**555,426**	**$**	**324**
Production and intermediate-term		**--**		**309**		**309**		**333,373**		**333,682**		**--**
Agribusiness		**457**		**--**		**457**		**373,929**		**374,386**		**--**
Other		**--**		**--**		**--**		**191,839**		**191,839**		**--**
Total	**$**	**457**	**$**	**633**	**$**	**1,090**	**$**	**1,454,243**	**$**	**1,455,333**	**$**	**324**

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	$	682	$	--	$	682	$	538,884	$	539,566	$	--
Production and intermediate-term		1,383		358		1,741		348,232		349,973		--
Agribusiness		--		--		--		320,498		320,498		--
Other		--		--		--		173,922		173,922		--
Total	$	2,065	$	358	$	2,423	$	1,381,536	$	1,383,959	$	--

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:		**September 30, 2022**		December 31, 2021
Volume with specific allowance	**$**	**3,345**	$	929
Volume without specific allowance		**1,796**		4,321
Total risk loans	**$**	**5,141**	$	5,250
Total specific allowance	**$**	**1,042**	$	571
For the nine months ended September 30		**2022**		2021
Income on accrual risk loans	**$**	**30**	$	42
Income on nonaccrual loans		**203**		330
Total income on risk loans	**$**	**233**	$	372
Average risk loans	**$**	**4,513**	$	6,203

Note: Accruing loans include accrued interest receivable.

We had no commitments to lend additional money to borrowers whose loans were classified as risk loans at September 30, 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 nine months ended September 30, 2022. Our recorded investment in these loans just prior to and immediately following restructuring was $402 thousand during the nine months ended September 30, 2022. 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. There were no TDRs that occurred during the nine months ended September 30, 2021.

The primary types of modification included extension of maturity and forgiveness of principal.

There were no TDRs that defaulted during the nine months ended September 30, 2022, or 2021, in which the modification was within twelve months of the respective reporting period.

TDRs outstanding in the production and intermediate-term loan category totaled $369 thousand, all of which were in nonaccrual status at September 30, 2022. There were no TDRs outstanding at December 31, 2021.

There were no commitments to lend to borrowers whose loans have been modified in a TDR at September 30, 2022.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)

Nine months ended September 30	**2022**	2021
Balance at beginning of period	**$ 3,207**	$ 4,148
Provision for (reversal of) loan losses	**492**	(959)
Loan recoveries	**--**	10
Loan charge-offs	**(3)**	(12)
Balance at end of period	**$ 3,696**	$ 3,187

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 basis at September 30, 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 September 30, 2022	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 2,419**	**$ 2,419**

As of December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 376	$ 376

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.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 4, 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.