Farm Credit Midsouth, 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 Midsouth, ACA and its subsidiaries, Farm Credit Midsouth, FLCA and Farm Credit Midsouth, 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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MERGER ACTIVITY

On June 24, 2022, the Boards of Directors of Farm Credit Midsouth, ACA and Farm Credit Mid-America, ACA executed a letter of intent to merge the two associations. The merged association would be named Farm Credit Mid-America, ACA and headquartered in Louisville, Kentucky. Today, combining the associations would serve over 137,000 customers in 391 counties in Arkansas, Indiana, Kentucky, Missouri, Ohio, and Tennessee, and would yield approximately $36.0 billion in owned and managed assets. The Boards of both Associations and AgriBank approved the merger, and it was submitted to the Farm Credit Administration on September 22, 2022, for review. If the Farm Credit Administration approves the merger, customer-owners would vote on the merger in early 2023. If approved, the target effective date for the merger is April 1, 2023.

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

According to the National Agricultural Statistics Service and the United States Department of Agriculture (USDA), there were almost 30 days suitable for fieldwork during the last four weeks with average to above-average temperatures and below-average rainfall. According to our branch offices, the current weather conditions have been excellent for harvesting. However, the record low river levels are concerning for exporting the harvested product.

According to the USDA Crop Progress and Condition report dated October 3, 2022, 93% of the corn crop is harvested compared to the 5-year average of 90%. Additionally, 75% of rice, 32% of soybeans, and 20% of cotton have been harvested. These percentages are similar to the 5-year average. The USDA Progress report also states that 73% of cotton and 63% of beans are in good-to-excellent condition. The USDA Crop Production Report dated September 9, 2022, indicates that corn, rice, and cotton yields are slightly below prior year yields while soybean yields are expected to be slightly higher than 2021.

The state of Arkansas unemployment rate was 3.5% as of August 2022 (not seasonally adjusted), compared to 3.8% in August 2021. The national average was 3.8% compared to 5.3% the previous year. Midsouth's ten counties saw a mix of changes related to unemployment since the previous year; three counties remained the same, three counties saw increases, and four counties saw decreases.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.3 billion at September 30, 2022, an increase of $88.5 million from December 31, 2021. The increase was primarily due to growth in our production and intermediate-term loan portfolio.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2021. Adversely classified loans decreased to 0.1% of the portfolio at September 30, 2022, from 0.7% 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. Additionally, the record low levels of the Mississippi River have caused some stresses in farm operations; however, following credit reviews, management sees no ongoing concerns.

In certain circumstances, the Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At September 30, 2022, $6.9 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	**$ 220**	$ 537
Accruing restructured	**1**	1
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**221**	538
Other property owned	**--**	--
Total risk assets	**$ 221**	$ 538
Total risk loans as a percentage of total loans	**0.0%**	0.0%
Nonaccrual loans as a percentage of total loans	**0.0%**	0.0%
Current nonaccrual loans as a percentage of total nonaccrual loans	**82.7%**	11.4%
Total delinquencies as a percentage of total loans	**0.0%**	0.0%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased 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.

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	**0.2%**	0.2%
Nonaccrual loans	**1185.5%**	419.0%
Total risk loans	**1180.1%**	418.2%

The allowance as a percentage of nonaccrual loans and total risk loans has increased from December 31, 2021, primarily due to a decrease in nonaccrual loans and an increase in the allowance for loan losses. The increase in the allowance for loan losses is mainly due to growth in our loan portfolio. 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	**$ 13,667**	$ 13,034
Return on average assets	**1.5%**	1.5%
Return on average members' equity	**7.0%**	7.1%

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	**$ 23,031**	$ 21,015	**$ 2,016**
Provision for loan losses	**258**	236	**(22)**
Non-interest income	**4,871**	5,383	**(512)**
Non-interest expense	**13,861**	12,930	**(931)**
Provision for income taxes	**116**	198	**82**
Net income	**$ 13,667**	$ 13,034	**$ 633**

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable is scheduled to mature on April 30, 2024. We intend to renegotiate the note payable no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at September 30, 2022, or December 31, 2021.

Total members’ equity increased $8.0 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	**17.7%**	17.5%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**17.7%**	17.5%	6.0%	2.5%	8.5%
Total capital ratio	**17.8%**	17.8%	8.0%	2.5%	10.5%
Permanent capital ratio	**17.7%**	17.5%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**18.8%**	18.7%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.7%**	19.4%	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 Midsouth, 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.

Dane Coomer
Chairman of the Board
Farm Credit Midsouth, ACA

James McJunkins
President and Chief Executive Officer
Farm Credit Midsouth, ACA

Diane Steiling
Executive Vice President of Finance, Chief Financial Officer
Farm Credit Midsouth, ACA

November 7, 2022

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

As of:	September 30, 2022	December 31, 2021
ASSETS		
Loans	**$ 1,255,329**	$ 1,166,863
Allowance for loan losses	**2,608**	2,250
Net loans	**1,252,721**	1,164,613
Investment in AgriBank, FCB	**29,640**	28,843
Accrued interest receivable	**25,600**	18,512
Other assets	**19,014**	17,264
Total assets	**$ 1,326,975**	$ 1,229,232
LIABILITIES		
Note payable to AgriBank, FCB	**$ 1,045,488**	$ 955,802
Accrued interest payable	**5,338**	3,675
Deferred tax liabilities, net	**709**	423
Patronage distribution payable	**5,700**	6,800
Other liabilities	**4,628**	5,397
Total liabilities	**1,061,863**	972,097
Contingencies and commitments (Note 3)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**1,953**	1,979
Unallocated surplus	**263,434**	255,466
Accumulated other comprehensive loss	**(275)**	(310)
Total members' equity	**265,112**	257,135
Total liabilities and members' equity	**$ 1,326,975**	$ 1,229,232

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
For the period ended September 30	**2022**	2021	**2022**	2021
Interest income	**$ 13,948**	$ 11,444	**$ 35,686**	$ 31,134
Interest expense	**5,338**	3,653	**12,655**	10,119
Net interest income	**8,610**	7,791	**23,031**	21,015
Provision for loan losses	**312**	166	**258**	236
Net interest income after provision for loan losses	**8,298**	7,625	**22,773**	20,779
Non-interest income				
Patronage income	**1,578**	1,414	**4,135**	3,932
Financially related services income	**273**	207	**312**	236
Fee income	**241**	97	**321**	1,144
Other non-interest income	**18**	20	**103**	71
Total non-interest income	**2,110**	1,738	**4,871**	5,383
Non-interest expense				
Salaries and employee benefits	**2,588**	2,784	**8,205**	8,317
Other operating expense	**1,984**	1,641	**5,656**	4,611
Other non-interest expense	**--**	--	**--**	2
Total non-interest expense	**4,572**	4,425	**13,861**	12,930
Income before income taxes	**5,836**	4,938	**13,783**	13,232
(Benefit from) provision for income taxes	**(44)**	(63)	**116**	198
Net income	**$ 5,880**	$ 5,001	**$ 13,667**	$ 13,034
Other comprehensive income				
Employee benefit plans activity	**$ 12**	$ 9	**$ 35**	$ 28
Total other comprehensive income	**12**	9	**35**	28
Comprehensive income	**$ 5,892**	$ 5,010	**$ 13,702**	$ 13,062

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2020	$ 1,945	$ 239,709	$ (263)	$ 241,391
Net income	--	13,034	--	13,034
Other comprehensive income	--	--	28	28
Unallocated surplus designated for patronage distributions	--	(5,099)	--	(5,099)
Capital stock and participation certificates issued	151	--	--	151
Capital stock and participation certificates retired	(105)	--	--	(105)
Balance at September 30, 2021	$ 1,991	$ 247,644	$ (235)	$ 249,400
Balance at December 31, 2021	$ 1,979	$ 255,466	$ (310)	$ 257,135
Net income	**--**	**13,667**	**--**	**13,667**
Other comprehensive income	**--**	**--**	**35**	**35**
Unallocated surplus designated for patronage distributions	**--**	**(5,699)**	**--**	**(5,699)**
Capital stock and participation certificates issued	**76**	**--**	**--**	**76**
Capital stock and participation certificates retired	**(102)**	**--**	**--**	**(102)**
Balance at September 30, 2022	**$ 1,953**	**$ 263,434**	**$ (275)**	**$ 265,112**

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 Midsouth, ACA and its subsidiaries Farm Credit Midsouth, FLCA and Farm Credit Midsouth, 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	**$**	**670,572**	**53.4%**	$	664,892	57.0%
Production and intermediate-term		**502,969**	**40.1%**		430,659	36.9%
Agribusiness		**75,345**	**6.0%**		68,777	5.9%
Other		**6,443**	**0.5%**		2,535	0.2%
Total	**$**	**1,255,329**	**100.0%**	$	1,166,863	100.0%

The other category is composed of rural infrastructure and rural residential real estate 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
Real estate mortgage	**$ 266**	**$ --**	**$ 266**	**$ 683,613**	**$ 683,879**
Production and intermediate-term	**13**	**25**	**38**	**514,126**	**514,164**
Agribusiness	**--**	**--**	**--**	**76,428**	**76,428**
Other	**--**	**--**	**--**	**6,458**	**6,458**
Total	**$ 279**	**$ 25**	**$ 304**	**$ 1,280,625**	**$ 1,280,929**

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
Real estate mortgage	$ --	$ 422	$ 422	$ 674,935	$ 675,357
Production and intermediate-term	20	34	54	437,876	437,930
Agribusiness	51	--	51	69,497	69,548
Other	--	--	--	2,540	2,540
Total	$ 71	$ 456	$ 527	$ 1,184,848	$ 1,185,375

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at September 30, 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:	**September 30, 2022**	December 31, 2021
Volume with specific allowance	**$ 25**	$ 34
Volume without specific allowance	**196**	504
Total risk loans	**$ 221**	$ 538
Total specific allowance	**$ 24**	$ 33
For the nine months ended September 30	**2022**	2021
Income on accrual risk loans	**$ --**	$ --
Income on nonaccrual loans	**70**	50
Total income on risk loans	**$ 70**	$ 50
Average risk loans	**$ 394**	$ 9,260

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.

There were no TDRs that occurred during the nine months ended September 30, 2022, or 2021. Additionally, 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

(in thousands) As of:	**September 30, 2022**	December 31, 2021
TDRs in accrual status	**$ 1**	$ 1
TDRs in nonaccrual status	**14**	21
Total TDRs	**$ 15**	$ 22

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	**$ 2,250**	$ 4,158
Provision for loan losses	**258**	236
Loan recoveries	**101**	--
Loan charge-offs	**(1)**	(96)
Balance at end of period	**$ 2,608**	$ 4,298

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. The fair value of impaired loans was $1 thousand at September 30, 2022, and December 31, 2021, which was valued using Level 3 inputs.

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 7, 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.