AgSouth Farm Credit, ACA

THIRD QUARTER 2021

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2021 quarterly report of AgSouth Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Pat Calhoun
Chief Executive Officer

Bo Fennell
Chief Financial Officer

Hugh E. Weathers
Chairman of the Board

November 8, 2021

AgSouth Farm Credit, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and affected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2021. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of September 30, 2021, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2021.

Pat Calhoun
Chief Executive Officer

Bo Fennell
Chief Financial Officer

November 8, 2021

AgSouth Farm Credit, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended September 30, 2021. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2020 Annual Report of AgSouth Farm Credit, ACA. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a wide range of agricultural commodities produced in our region, including timber, poultry (broilers, turkeys and eggs), sod, nursery and horticulture, cotton, feed grains, soybeans and hay, beef cattle, horses, peanuts, blueberries, fruits, and nuts. Loans to producers of these commodities total $1,749,375 or 86 percent of the Association's portfolio. Farm size varies, and many of the Association's customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. The Association returned to pre-pandemic working in June 2021.

The COVID-19 pandemic has disrupted businesses and the global economy since March 2020. Significant progress has been made during 2021 in mitigating the spread of COVID-19 resulting in improving macroeconomic conditions. However, the improvement has been hampered by rising inflation, supply chain disruptions and labor shortages in the United States and globally.

See further discussion of business risks associated with COVID-19 in the Association's 2020 Annual Report.

COVID-19 Support Programs

Since the onset of the COVID-19 pandemic, the US government has taken a number of actions to help businesses, individuals, state/local governments, and educational institutions that have been adversely impacted by the economic disruption caused by the pandemic.

Since March 2021, the USDA rolled out the Pandemic Assistance initiative that provides assistance to producers and agricultural entities through various programs, which include, but are not limited to, the following:

- Pandemic Livestock Indemnity Program - provides financial assistance to support producers of eligible swine, chickens, and turkeys depopulated from March 1, 2020 through December 26, 2020. To be

eligible, depopulation of poultry or livestock must have been due to insufficient processing access resulting from the COVID-19 pandemic;
- Pandemic Assistance for Timber Harvesters and Haulers Program - provides financial relief to timber harvesting and timber hauling businesses that experienced losses in 2020 due to COVID-19;
- Pandemic Cover Crop Program - for most insurance policies, provided premium support to producers who insured their spring crop and planted a qualifying cover crop during the 2021 crop year; and
- Specialty Crop Block Grant Program - funds innovative projects designed to support the expanding specialty crop food sector and explore new market opportunities for US food and agricultural products.

The previously enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was amended by subsequent legislation, included the Paycheck Protection Program (PPP). The PPP provided support to small businesses to cover payroll and certain other expenses. Loans made under the PPP were fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States. As of September 30, 2021, the Association had $2.9 million of these loans outstanding. In addition, through September 30, 2021, the volume of such loans that have received forgiveness from the SBA since the start of the program was $10.9 million.

For a detailed discussion of programs enacted in 2020, see pages 6 and 7 of the 2020 Annual Report.

AGRICULTURE OVERVIEW

The National Agricultural Statistics Service (NASS) October *Crop Production Report* dated October 12, 2021 indicated the following: Peanut production in Georgia is expected to be down 1 percent from 2020 at 3.3 billion pounds. In South Carolina, peanut production is expected to be down 9 percent from 2020 at 271 million pounds. Cotton production in both Georgia and South Carolina is projected up from 2020 with Georgia forecast at 2.25 million bales, up 3 percent, and South Carolina forecast at 395,000 bales, up 32 percent. With a record yield forecast of 43 bushels per acre, Georgia soybean production is expected to be up 44 percent from 2020 at 5.59 million bushels. Soybean production in South Carolina is up 18 percent from 2020 at 12.2 million bushels. In Georgia, corn for grain production is forecast at 77.4 million bushels, up 10 percent from 2020. The South Carolina yield forecast for corn for grain production is projected at 53 million bushels, up 9 percent from 2020 with a forecasted yield of 136 bushels per acre.

The National Agricultural Statistics Service (NASS) *Crop Progress and Condition Report* for the week ending October 10, 2021 reported the following: Georgia top soil moisture as being 93 percent adequate to surplus and South Carolina at 83 percent adequate to surplus. The report indicated the crop condition of peanuts in Georgia as 67 percent rated good to excellent and 27 percent fair with 26 percent of the crop harvested to date. For South Carolina peanuts, 86 percent were rated good to excellent and 12 percent fair with 25 percent of the crop harvested to date. Cotton harvest is behind the five year average for both Georgia and South Carolina. The Georgia cotton crop is rated 58 percent good to excellent with 31 percent in fair condition with 8 percent of the cotton acreage harvested. The South Carolina cotton crop is rated 80 percent good to excellent with 19 percent of the crop in fair condition with 6 percent of the cotton harvested. The 2021 soybean harvest is just in the early stages, but NASS is rating the crop as 77 percent good to excellent and 21 percent fair in Georgia. In South Carolina, soybeans are 84 percent good to excellent and 13 percent fair. Pasture conditions for both Georgia and South Carolina were in relatively good shape with more than 62 percent of the acreage rated good to excellent and at least 27 percent rated fair. Corn harvest was 96 and 95 percent complete in both Georgia and South Carolina, respectively.

The USDA NASS September 24, 2021 *Cattle on Feed Report* indicates the number of cattle and calves on feed for the slaughter market in the US for feedlots with capacity of 1,000 or more head totaled 11.2 million head on September 1, 2021. That is slightly below September 1, 2020 and the second highest September 1 inventory since the report began in 1996.

According to the NASS Broiler *Hatchery News Release* dated October 6, 2021, domestic broiler growers placed 180 million chicks for meat production during the week ending October 2, 2021, down 1 percent from the comparable week a year earlier. Georgia hatcheries placed 26.4 million chicks, up 1 percent from the same week in 2020. South Carolina chick placements were 4.7 million, down 10 percent from the same week in 2020. Cumulative placements for the United States were down 1 percent from the same period a year earlier.

Stumpage prices for all five major product types across the South increased in the third quarter of 2021. In particular, the price of pine saw timber increased to within $0.10 of its 10 year high and South-wide pine chip-n-saw price reached its highest level since fourth quarter of 2007. Southern plywood and Southern OSB prices fell this quarter after setting record highs in June. Plywood prices are still up 24 percent and OSB prices up 80 percent to their respective pre-COVID 10 year averages. According to the US Census, US housing starts for month end August 2021 totaled 1.08 million units, up 21 percent from the same period in 2020. Remodeling and improvement expenditures were up 14 percent or $21.7 billion from the same period in 2020.

NASS published the annual *Southern Region Land Values and Cash Rents Report* on August 9, 2021. The US farm real estate value, a measurement of all land and buildings on farms, averaged $3,380 per acre in 2021; up $220 per acre or 7 percent from 2020. NASS reported US farm land average cash rent for all cropland (irrigated, non-irrigated and pasture) was $141 per acre in 2021, a $2 increase from 2020. Georgia's farm land average cash rent per acre for all cropland increased $9 to $135 for 2021. Georgia farm real estate average value per acre increased $170 per acre to $3,670 in 2021.

South Carolina's farm land average cash rent per acre for all cropland was $50.50 in 2021, a $3 increase from 2020. South Carolina's farm real estate average value per acre increased $100 per acre to $3,600 in 2021.

The Conference Board Leading Economic Index (LEI) increased by 0.2 percent in September to 117.5 (2016 = 100), following a 0.8 percent increase in August and a 0.9 percent increase in July.

"The U.S. LEI rose again in September, though at a slower rate, suggesting the economy remains on a more moderate growth trajectory compared to the first half of the year," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The Delta variant, rising inflation fears, and supply chain disruptions are all creating headwinds for the US economy. Despite the LEI's slower growth in recent months, the strengths among the components remain widespread. Indeed, The Conference Board continues to forecast strong growth ahead: 5.7 percent year-over-year for 2021 and 3.8 percent for 2022."

The Conference Board US Consumer Confidence Index fell from 115.2 in August 2021 to 109.3 in September 2021. The Conference Board stated "consumer confidence dropped in September as the spread of the delta variant continued to dampen optimism." "Consumer confidence is still high by historical levels – enough to support further growth in the near-term – but the index has now fallen 19.6 points from the recent peak of 128.9 reached in June. These back-to-back declines suggest consumers have grown more cautious and are likely to curtail spending going forward."

Total nonfarm payroll employment rose by 194,000 in September 2021, and the unemployment rate declined to 4.8 percent, according to the US Bureau of Labor Statistics. Notable job gains occurred in leisure and hospitality, in professional and business services, and in transportation and warehousing. Unemployment in South Carolina is at 4.1 percent as of September 2021, a 1.3 percent decrease from September 2020. Unemployment in Georgia is at 3.2 percent as of September 2021, a 3.3 percent decrease from September 2020.

The Federal Reserve signaled that it is ready to start tapering its purchases of treasuries and mortgage securities after its next meeting on November 3rd. According to the Kiplinger Economic Outlook "given that the Fed will not raise rates while it is tapering, it is possible that it could begin to raise interest rates at the end of next year if it feels that inflation is running too hot."

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of September 30, 2021 was $2,032,472 an increase of $110,850 or 5.77 percent compared to $1,921,622 at December 31, 2020. Net loans outstanding at September 30, 2021 were $2,014,604 as compared to $1,904,265 at December 31, 2020. Net loans accounted for 96.17 percent of total assets at September 30, 2021, as compared to 94.84 percent of total assets at December 31, 2020.

The increase in gross loan volume during the reporting period is attributed to the funding of operating lines of credit and term loans during the busiest time of the growing season. Advances on operating lines are now funded and additional anticipated growth in the portfolio is being realized. Competition for good quality loans remains strong from some commercial banks, but the Association has remained competitive in a difficult rate environment.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

At December 31, 2020 the Association held Investments in debt securities totaling $3,950. These investments are Rural America Bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration (FCA). At September 30, 2021 Investments in debt securities totaled $3,806, a decrease of $144 from December 31, 2020. The 3.65 percent decrease is from payments received in 2021.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality is at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from $15,280 at December 31, 2020 to $13,412 at September 30, 2021. The balance of nonaccrual loans is decreased by loans returning to accrual status, liquidations, or transfer of assets to other property owned offset by transfers to nonaccrual status. Association staff is working diligently to work out all nonaccrual debt situations.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2021 was $17,868 compared to $17,357 at December 31, 2020 and was considered by management to be adequate to cover possible losses. Although management has not recognized any direct decline in credit quality, an adjustment to the qualitative factors seemed prudent given the financial climate. The reserve set aside for unfunded commitments is $632 which is a decrease of $111 compared to the total at December 31, 2020 of $743. The reserve for unfunded commitments is included in Other liabilities. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of executive management and staff assigned to special assets management, met in September 2021 to review the allowance account. The ALCO determines the composition between the allowance for loan losses on the outstanding portfolio and the reserve required for unfunded commitments. The ALCO considered the general economic conditions, the potential for deterioration in the existing portfolio, the loan growth in the portfolio, and the amount of outstanding loan commitments in determining the level of allowance.

As of the end of the third quarter of 2021, the Association had originated $232,451 in loans for the secondary market. Originations for the same period 2020 were $184,233. The 26.17 percent increase is due to increased volume as the market continues to remain strong for both refinancing and new home purchases given the historically low rate environment. As of September 30, 2021 the Association held $1,134 in qualifying Loans held for sale. At December 31, 2020 loans held for sale totaled $3,274.

Accrued interest receivable increased $710 or 4.25 percent from $16,711 as of December 31, 2020 to $17,421 as of September 30, 2021. The increase is related to the higher loan volume at September 30, 2021 compared to December 31, 2020.

Equity investments in other Farm Credit institutions decreased from $22,469 at December 31, 2020 to $22,415 at September 30, 2021. The decrease of $54, or less than one percent, is the result of a lower balance of investment in other Farm Credit institutions, which varies based on participations sold on a patronage basis.

Premises and equipment, net decreased $215 from $21,309 at December 31, 2020 to $21,094 at September 30, 2021. The primary reasons for the decrease of 1.01 percent is due to depreciation on assets.

Other property owned decreased to $313 at September 30, 2021 from $1,170 at December 31, 2020. The decrease of $857 or 73.25 percent in Other property owned is the result of the sales and write-downs of Other property owned exceeding the acquisitions of Other property owned during the reporting period.

Accounts receivable decreased $20,829 from $32,421 at December 31, 2020 to $11,592 at September 30, 2021. The decrease is the result of the patronage distribution receivable at December 31, 2020 from AgFirst and other Farm Credit institutions, which totaled $14,227 in regular distribution and $17,505 in a special distribution. As of September 30, 2021 this line item included two quarters of patronage accrual from AgFirst and other Farm Credit institutions totaling $10,984.

Other assets increased from $2,129 at December 31, 2020 to $2,409 at September 30, 2021. The majority of other assets is made up of prepaid retirement expense which totaled $1,305 as of September 30, 2021.

On the liability side of the balance sheet, Notes payable to AgFirst Farm Credit Bank increased from $1,538,795 at December 31, 2020 to $1,623,429 at September 30, 2021. The $84,634 or 5.50 percent increase is tied to the increase in loans outstanding.

Accrued interest payable decreased $61, or 1.81 percent, from $3,363 at December 31, 2020 to $3,302 at September 30, 2021. The decrease is tied to the decrease in the direct note rate on the notes payable balance outstanding.

Patronage refunds payable decreased $12,139 from $12,501 at December 31, 2020 to $362 at September 30, 2021. The decrease is the result of the cash portion of the 2020 Patronage distribution on the Association's records at December 31, 2020 moving from Patronage refund payable to Other liabilities. This amount totaled $12,000 at December 31, 2020. During the third quarter the Board had distributed a $10,000 Special All Cash Distribution from 2020 earnings. Checks were mailed in July 2021 to members. No patronage distribution had been declared for 2021 as of September 30, 2021.

Accounts payable increased $607 from $1,873 at December 31, 2020 to $2,480 at September 30, 2021. The 32.41 percent increase is due to the payable established to pay the insurance premiums on loans to the Farm Credit System Insurance Corporation (FCSIC). At December 31, 2020 the payable related to the FCSIC totaled $1,306, and at September 30, 2021 the payable was $1,705.

Other liabilities increased $5,308 from $14,798 at December 31, 2020 to $20,106 at September 30, 2021. The 35.87 percent increase is due to an increase in retirement liability.

Capital stock and participation certificates increased from $10,626 at December 31, 2020 to $11,126 at September 30, 2021. The increase of $500 or 4.71 percent is due to new borrowers purchasing stock during the reporting period in excess of liquidations of stock when loans pay out.

Allocated surplus decreased from $139,757 at December 31, 2020 to $121,081 at September 30, 2021. This is a decrease of $18,676 or 13.36 percent. The reduction is from the decision made by the Board of Directors to revolve the 2015 series of Allocated Surplus in January 2021. This revolvement totaled $18,351. The checks and notices for this revolvement were generated and mailed in February 2021.

Unallocated surplus increased $26,798 or 9.34 percent from the December 31, 2020 balance of $286,811. The balance of $313,609 at September 30, 2021 includes the retention of a portion of 2020 fiscal year end earnings and earnings year to date in 2021.

Accumulated other comprehensive loss decreased $18 or 2.60 percent from the December 31, 2020 balance of $693. At September 30, 2021 there was a balance of $675.

RESULTS OF OPERATIONS

For the three months ended September 30, 2021

Net income for the three months ended September 30, 2021 totaled $12,011 as compared to $12,224 for the same period in 2020. This is a decrease of $213 or 1.74 percent. Comprehensive income for the three months ended September 30, 2021 was $12,017 compared to $12,228 for the same period in 2020. Employee benefit plans adjustments are responsible for the difference between comprehensive income and net income. The following commentary explains the variance.

At September 30, 2021 interest income on loans increased $72 from $26,965 at September 30, 2020 to $27,037 at September 30, 2021. This increase of less than one percent is primarily due to an increase in loan volume while the portfolio loan yield has decreased between the two reporting periods.

For the three months ended September 30, 2021 interest income on investments totaled $66 compared to $70 for the three months ended September 30, 2020. Investment income declined $4 or 5.71 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense for the three months ended September 30, 2021 decreased $519 from $10,512 at September 30, 2020 to $9,993 at September 30, 2021. The variance of 4.94 percent is tied to the weighted average direct note rate between the two reporting periods.

Net interest income before the provision for loan losses increased $587 for the three months ended September 30, 2021 as compared to the same period in 2020. The increase is due primarily to the lower interest expense between the two reporting periods.

Net interest income after the provision for loan losses increased $733 during the quarter ending September 30, 2021 compared to September 30, 2020. A provision for loan losses of $726 was made in the quarter ending September 30, 2021. The provision for loan losses entry represents an adjustment between the general provision and the unfunded commitments provision which is booked to Other liabilities.

Noninterest income increased $1,008 over the same period last year. The commentary that follows will detail the aggregate difference.

Loan fees increased $255, or 22.45 percent, due to an increase in secondary mortgage market origination fee income earned during the quarter compared to the same period in 2020.

Fees for financially related services increased $240 from $280 at September 30, 2020 to $520 at September 30, 2021. The increase of 85.71 percent is primarily due to the increase in crop insurance income earned during the reporting period.

Patronage refunds from other Farm Credit institutions increased $113 from $3,751 at September 30, 2020 to $3,864 at September 30, 2021. The increase of 3.01 percent is due to an increase in patronage distribution from AgFirst on participations sold. See *Note 2* for more information.

Gains on the sale of rural home loans increased $486 from $581 at September 30, 2020 compared to $1,067 at September 30, 2021. The increase is due to the increase in volume of Secondary Mortgage Markets sold.

Gains on the sale of premises and equipment, net for the period ending September 30, 2021 totaled $14 compared to $57 for the period ending September 30, 2020. In 2020 the Association sold multiple Association vehicles resulting in more gains for the period compared to 2021.

Gains on other transactions totaled $123 at September 30, 2021 compared to a Gains on other transactions of $170 at September 30, 2020. The difference of $47 or 27.65 percent is primarily related to the higher provision for unfunded commitments and the gain on Rabbi Trust compared to last year. The gain recorded in the 2021 reporting period is primarily related to the gain associated with the Rabbi Trust non-qualified retirement plan.

There was no Insurance Fund refund for the three months ending September 30 in 2021 or 2020. The FCSIC has not declared a refund to Farm Credit System Associations for 2021.

Other noninterest income was $72 during the three months ended September 30, 2021 compared to $68 for the three months ending September 30, 2020. The majority of this line item consist of fees received from Secondary Mortgage Market referrals.

Noninterest expense for the three months ended September 30, 2021 totaled $11,370 and increased $1,911 or 20.20 percent when compared to $9,459 for the same period of 2020. Salaries and employee benefits expense is the largest portion of noninterest expense and totaled $8,597 for the three months ended September 30, 2021. Salaries and employee benefits increased $1,399 between the two reporting periods. There is a 19.44 percent variance between the two reporting periods due to the increase in secondary market mortgage commissions paid tied to the increase in originations.

Occupancy and equipment expense at September 30, 2021 was $585 compared to $504 for the same period in 2020. This is an increase of $81 or 16.07 percent. The increase is tied to the increased property insurance premiums in 2021.

The Insurance Fund premiums at September 30, 2021 were $586 and at September 30, 2020 were $383. The $203 or 53.00 percent increase is due to the higher premium assessment rate in 2021.

In the three months ending September 30, 2021 the Association experienced Gains on the sale of other property owned in the amount of $131. During the same period of 2020, the Association booked Gains on the sale of other property owned of $101. The gain is the result of sales exceeding any write-downs during the third quarter.

Other operating expenses increased $258 from $1,475 at September 30, 2020 compared to $1,733 at September 30, 2021. The increase of 17.49 percent is attributed to an increase in directors expense, purchased services, Association vehicles, and marketing activities.

For the nine months ended September 30, 2021

Net income for the nine months ended September 30, 2021, totaled $36,548 as compared to $34,793 for the same period in 2020. This is an increase of $1,755 or 5.04 percent. Comprehensive income for the nine months ended September 30, 2021 was $36,566 compared to $34,804 for the nine months ended September 30, 2020. Employee benefit plans adjustments are responsible for the difference between comprehensive income and net income. The following narrative will explain the variance.

At September 30, 2021 interest income on loans decreased $885 to $79,571 compared to $80,456 for the same period in 2020. The decrease is tied to decrease in the overall weighted average interest rate earned.

For the nine months ending September 30, 2020 interest income on investments totaled $226 compared to $200 for the same period ended September 30, 2021. Investment income declined $26 or 11.50 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense decreased $3,236 or 9.96 percent from $32,493 at September 30, 2020 to $29,257 for the nine months ended September 30, 2021. The net decrease is attributable to a higher direct note balance between the reporting periods and a lower weighted average direct note rate.

Net interest income before the provision for loan loss increased $2,325 or 4.82 percent for the nine months ended September 30, 2021 as compared to the same period in 2020 primarily due to the increase in loan volume. Net interest income after the provision for loan losses increased $3,053 for the period ending September 30, 2021 primarily due to an increase in loan volume, as well.

The Provision for loan losses amount in the 2020 reporting period totaled $1,581 and there were provision entries totaling $853 in the 2021 reporting period. In September 2021, the Association's ALCO made the decision to increase the allowance requiring an increase to the general reserve and the allowance for unfunded commitments which resides within Other Liabilities. These decisions were made after analyzing the risk in the current portfolio. The ALCO analysis included reviewing historical trends, loan size, loan performance and credit quality reports.

Noninterest income for the nine months ended September 30, 2021 increased $2,484 compared to the same period of 2020. Loan fees increased $912 or 23.51 percent. The increase is due to a significant increase in SMM originations and fees received from SBA PPP Loans.

Fees for financially related services increased $495 from $742 at September 30, 2020 compared to $1,237 at September 30, 2021. The 66.71 percent increase in fees for financially related services is the result of an increase in fee income earned on the sale of crop insurance policies and leasing services.

The patronage refunds from other Farm Credit institutions increased $429 from $10,868 at September 30, 2020 to $11,297 at September 30, 2021. The increase of 3.95 percent is due to an increase in patronage distribution from AgFirst on participations sold.

Gains on the sale of rural home loans increased $544 from $1,906 at September 30, 2020 to $2,450 at September 30, 2021. Gains increased due to the increase in Secondary Mortgage Market volume compared to the prior period.

Gains on the sale of premises and equipment decreased $13 from $157 for the period ending September 30, 2020 to $144 at September 30, 2021. The decrease is the result of less Association vehicles being sold during the period.

Gains on other transactions totaled $311 for the nine months ended September 30, 2021 compared to a loss of $154 for the same period in 2020. The gain recorded in the 2021 reporting period is primarily related to the gain on Rabbi Trust.

Insurance Fund refunds totaled $0 at September 30, 2021 compared to $339 during the nine months ended September 30, 2020. The Farm Credit System Insurance Corporation (FCSIC) has not declared a refund for 2021.

Other noninterest income decreased $9 from $204 at September 30, 2020 compared to $195 at September 30, 2021. The variance of 4.41 percent is due to volume premiums paid by AgFirst for secondary market activity.

Noninterest expense for the nine months ended September 30, 2021 increased $3,760 compared to the same period of 2020 from $29,726 to $33,486. Salaries and employee benefits expense increased $3,049 between the two reporting periods. The 13.73 percent increase in salaries and employee benefits is tied to the secondary market mortgage commission paid tied to the increase in originations. The Association accrues for the 2021 incentive payment based upon plan results which are included in salary and benefit expense. The Association evaluated 2021 performance measures for incentive purposes and determined that some employees could earn incentive in 2021. Based upon this information, the Association will continue to accrue for incentive. The expense associated with the incentive accrual balance as of September 30, 2021 is $2,890. Association results will be re-evaluated prior to the end of the fourth quarter 2021 to determine the most accurate accrual for the 2021 incentive plan.

Occupancy and equipment expense at September 30, 2021 was $1,811 compared to $1,686 for the same period in 2020. The increase is tied to higher costs associated with cost of space.

The Insurance Fund premiums increased from $920 at September 30, 2020 to $1,705 at September 30, 2021. The increase of $785 or 85.33 percent is due to the higher insurance fund premium rate in 2021 compared to 2020.

Gains on other property owned, net totaled $157 for the nine months ending September 30, 2021. When compared to the same period in 2020, losses on other property owned totaled $119. The increase is due to the gains recognized on the sale of other property owned exceeding any write-downs.

Other operating expenses increased $77 from $4,793 at September 30, 2020 compared to $4,870 at September 30, 2021. The increase is primarily due to director, training, purchased services, and data processing expenses that were not warranted in 2020 due to the COVID-19 pandemic.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2021 was $1,623,429 as compared to $1,538,795 at December 31, 2020. The $84,634 increase, or 5.50 percent, is directly tied to the increase in loan volume.

CAPITAL RESOURCES

Total members' equity at December 31, 2020 totaled $436,501. At September 30, 2021 total members' equity had increased by $8,640 to $445,141. The increase in total members' equity is due to the increase in Unallocated retained earnings offset by a decrease in Allocated retained earnings between the two reporting periods. At December 31, 2020 Allocated retained earnings totaled $139,757 compared to $121,081 at September 30, 2021. The decrease is due to the revolvement of the 2015 series of allocated surplus in the first quarter of 2021. At December 31, 2020 Unallocated retained earnings totaled $286,811 and increased to $313,609. The increase in Unallocated retained earnings is due to the decision to retain a portion of the 2020 earnings for capital purposes and year to date 2021 earnings.

Total Capital stock and participation certificates were $11,126 on September 30, 2021 compared to $10,626 on December 31, 2020. The increase is attributed to the purchase of new stock and participation certificates for new borrowing entities offset by the retirement of stock and participation certificates on loans liquidated in the normal course of business.

The Association's capital ratios are calculated in accordance with FCA regulations, as follows:

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The Association's regulatory capital ratios are shown in the following table:

Ratio	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2021
Risk-adjusted ratios:		
CET1 Capital	7.00%	14.80%
Tier 1 Capital	8.50%	14.80%
Total Capital	10.50%	21.95%
Permanent Capital Ratio	7.00%	21.22%
Non-risk-adjusted:		
Tier 1 Leverage Ratio	5.0%	14.28%
UREE Leverage Ratio	1.5%	14.04%

REGULATORY MATTERS

On September 9, 2021, the FCA adopted a final rule that amended certain sections of the FCA's regulations to provide technical corrections, amendments, and clarification to certain provisions in the FCA's tier 1/tier 2 capital framework for the Farm Credit System. The rule incorporates guidance previously provided by the FCA related to its tier 1/tier 2 capital framework as well as ensures that the FCA's capital requirements continue to be comparable to the standardized approach that the other federal banking regulatory agencies have adopted. The final rule will become effective on January 1, 2022, or 30 days after publication in the Federal Register during which either house of Congress is in session, whichever is later.

On August 26, 2021, the FCA issued a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the increased risk posed by HVCRE exposures. The public comment period is open until January 24, 2022.

On June 30, 2021, the FCA issued an advance notice of proposed rulemaking (ANPRM) that seeks public comments on whether to amend or restructure the System bank liquidity regulations. The purpose of this advance notice is to evaluate the applicability of the Basel III framework to the Farm Credit System and gather input to ensure that System banks have the liquidity to withstand crises that adversely impact liquidity and threaten their viability. The public comment period is open until November 27, 2021.

On September 23, 2019, the FCA issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under US generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ended on November 22, 2019.

Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority (UK FCA), which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021.

On March 5, 2021, ICE Benchmark Administration (IBA) (the entity that is responsible for calculating LIBOR) announced its intention to cease the publication of the one-week and two-month US dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining US dollar LIBOR settings immediately following the LIBOR publication on June 30, 2023. On the same day, the UK FCA announced that the IBA had notified the UK FCA of its intent, among other things, to cease providing certain US dollar LIBOR settings as of June 30, 2023. In its announcement, the UK FCA confirmed that all 35 LIBOR tenors (including with respect to US dollar LIBOR) will be discontinued or declared nonrepresentative as of either: (a) immediately after December 31, 2021 or (b) immediately after June 30, 2023.

The Association has exposure to LIBOR arising from loans made to customers and Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf, and preferred stock issued by the Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

The FCA has issued guidelines with similar guidance as the US prudential regulators but applicable for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a

LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure, stop the inflow of new LIBOR volume, and adjust operating processes to implement alternative reference rates.

The Association has implemented LIBOR transition plans and continues to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

On July 26, 2021, the Alternative Reference Rates Committee (ARRC) announced it will recommend the CME Group's forward-looking SOFR term rates. The ARRC's formal recommendation of SOFR term rates is a major milestone and is expected to increase the volume of transactions quoted in SOFR, supporting the implementation of the transition away from LIBOR.

On October 20, 2021, the US prudential regulators issued a joint statement emphasizing the expectation that supervised institutions with LIBOR exposure continue to progress toward an orderly transition away from LIBOR, reiterating that supervised institutions should, with limited exceptions, cease entering into new contracts that use US dollar LIBOR as a reference rate as soon as practicable, but no later than December 31, 2021. They further stated that entering into new contracts, including derivatives, after that date would create safety and soundness risks. The joint statement clarified that entering into such new contracts would include an agreement that (1) creates additional LIBOR disclosure or (2) extends the term of an existing LIBOR contract, but that a draw on an existing agreement that is legally enforceable, e.g., a committed credit facility, would not be a new contract. The joint statement also provided considerations when assessing the appropriateness of alternative reference rates used in lieu of LIBOR and the regulator expectation that new or updated LIBOR contracts include strong and clearly defined fallback rates for when the initial reference rate is discontinued.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2020 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the following table.

The following ASU was issued by the Financial Accounting Standards Board (FASB):

<table>
<tr><th>Summary of Guidance</th><th>Adoption and Potential Financial Statement Impact</th></tr>
<tr><td colspan="2">ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</td></tr>
<tr><td>• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets.
• Changes the present incurred loss impairment guidance for loans to an expected loss model.
• Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality.
• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.
• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.
• Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.</td><td>• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance.
• The new guidance is expected to result in a change in allowance for credit losses due to several factors, including:
1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,
2. An allowance will be established for estimated credit losses on any debt securities,
3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.
• The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts, at the adoption date.
• The guidance is expected to be adopted January 1, 2023.</td></tr>
</table>

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, ***www.agfirst.com***. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-633-9091, ext. 2674, writing Bo Fennell, CFO, AgSouth Farm Credit, ACA, P.O. Box 718, Statesboro, GA 30459, or accessing the Association's website ***www.agsouthfc.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual report to Shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Reports of suspected or actual wrongdoings involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (SpeakUp) at 1-844-850-6496 or *www.convercent.com/report*.

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2021	December 31, 2020
	(unaudited)	*(audited)*
Assets		
Cash	**$ 32**	$ 133
Investments in debt securities:		
Held to maturity (fair value of $4,150 and $4,448, respectively)	**3,806**	3,950
Loans	**2,032,472**	1,921,622
Allowance for loan losses	**(17,868)**	(17,357)
Net loans	**2,014,604**	1,904,265
Loans held for sale	**1,134**	3,274
Accrued interest receivable	**17,421**	16,711
Equity investments in other Farm Credit institutions	**22,415**	22,469
Premises and equipment, net	**21,094**	21,309
Other property owned	**313**	1,170
Accounts receivable	**11,592**	32,421
Other assets	**2,409**	2,129
Total assets	**$ 2,094,820**	$ 2,007,831
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,623,429**	$ 1,538,795
Accrued interest payable	**3,302**	3,363
Patronage refunds payable	**362**	12,501
Accounts payable	**2,480**	1,873
Other liabilities	**20,106**	14,798
Total liabilities	**1,649,679**	1,571,330
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**11,126**	10,626
Retained earnings		
Allocated	**121,081**	139,757
Unallocated	**313,609**	286,811
Accumulated other comprehensive income (loss)	**(675)**	(693)
Total members' equity	**445,141**	436,501
Total liabilities and members' equity	**$ 2,094,820**	$ 2,007,831

The accompanying notes are an integral part of these consolidated financial statements.

AgSouth Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2021	For the Three Months Ended September 30, 2020	For the Nine Months Ended September 30, 2021	For the Nine Months Ended September 30, 2020
Interest Income				
Loans	**$ 27,037**	$ 26,965	**$ 79,571**	$ 80,456
Investments	**66**	70	**200**	226
Total interest income	**27,103**	27,035	**79,771**	80,682
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**9,993**	10,512	**29,257**	32,493
Total interest expense	**9,993**	10,512	**29,257**	32,493
Net interest income	**17,110**	16,523	**50,514**	48,189
Provision for loan losses	**726**	872	**853**	1,581
Net interest income after provision for loan losses	**16,384**	15,651	**49,661**	46,608
Noninterest Income				
Loan fees	**1,391**	1,136	**4,791**	3,879
Fees for financially related services	**520**	280	**1,237**	742
Patronage refunds from other Farm Credit institutions	**3,864**	3,751	**11,297**	10,868
Gains (losses) on sales of rural home loans, net	**1,067**	581	**2,450**	1,906
Gains (losses) on sales of premises and equipment, net	**14**	57	**144**	157
Gains (losses) on other transactions	**123**	170	**311**	(154)
Insurance Fund refunds	**—**	—	**—**	339
Other noninterest income	**72**	68	**195**	204
Total noninterest income	**7,051**	6,043	**20,425**	17,941
Noninterest Expense				
Salaries and employee benefits	**8,597**	7,198	**25,257**	22,208
Occupancy and equipment	**585**	504	**1,811**	1,686
Insurance Fund premiums	**586**	383	**1,705**	920
(Gains) losses on other property owned, net	**(131)**	(101)	**(157)**	119
Other operating expenses	**1,733**	1,475	**4,870**	4,793
Total noninterest expense	**11,370**	9,459	**33,486**	29,726
Income before income taxes	**12,065**	12,235	**36,600**	34,823
Provision for income taxes	**54**	11	**52**	30
Net income	**$ 12,011**	$ 12,224	**$ 36,548**	$ 34,793
Other comprehensive income net of tax				
Employee benefit plans adjustments	**6**	4	**18**	11
Comprehensive income	**$ 12,017**	$ 12,228	**$ 36,566**	$ 34,804

The accompanying notes are an integral part of these consolidated financial statements.

AgSouth Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2019	$ 10,012	$ 131,801	$ 269,553	$ (532)	$ 410,834
Comprehensive income			34,793	11	34,804
Capital stock/participation certificates issued/(retired), net	435				435
Patronage distribution					
Cash			(8,000)		(8,000)
Retained earnings retired		(21,171)			(21,171)
Patronage distribution adjustment		1,190	(1,700)		(510)
Balance at September 30, 2020	$ 10,447	$ 111,820	$ 294,646	$ (521)	$ 416,392
Balance at December 31, 2020	**$ 10,626**	**$ 139,757**	**$ 286,811**	**$ (693)**	**$ 436,501**
Comprehensive income			**36,548**	**18**	**36,566**
Capital stock/participation certificates issued/(retired), net	**500**				**500**
Patronage distribution					
Cash			**(10,000)**		**(10,000)**
Retained earnings retired		**(18,408)**			**(18,408)**
Patronage distribution adjustment		**(268)**	**250**		**(18)**
Balance at September 30, 2021	**$ 11,126**	**$ 121,081**	**$ 313,609**	**$ (675)**	**$ 445,141**

The accompanying notes are an integral part of these consolidated financial statements.

AgSouth Farm Credit, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization

The accompanying financial statements include the accounts of AgSouth Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2020 are contained in the 2020 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies

The Association's accounting and reporting policies conform with US generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period and Applicable to the Association

There were no applicable Updates issued by the Financial Accounting Standards Board (FASB) during the period.

ASUs Pending Effective Date

For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date through the life of the financial instrument. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

Accounting Standards Effective During the Period

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting.

- In October 2020, the FASB issued ASU 2020-10 Codification Improvements. The amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The Update moves or references several disclosure requirements from Section 45 - Other Presentation Matters to Section 50 - Disclosures. It also includes minor changes to other guidance such as Cash Balance Plans, Unusual or Infrequent Items, Transfers and Servicing, Guarantees, Income Taxes, Foreign Currency, Imputation of Interest, Not For Profits and Real Estate Projects. The amendments had no impact on the statements of financial condition and results of operations.

- In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Adoption of this guidance had no effect on the statements of financial condition and results of operations.

- In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments simplify the accounting for income taxes by removing the following exceptions:
    - Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income),
    - Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment,
    - Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and
    - Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

  The amendments also simplify the accounting for income taxes by doing the following:
    - Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax,
    - Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction,
    - Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; however, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority,
    - Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date, and
    - Making minor codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

  For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Adoption of this guidance did not have a material impact on the statements of financial condition and results of operations.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

		September 30, 2021		December 31, 2020
Real estate mortgage	$	1,544,525	$	1,457,592
Production and intermediate-term		342,884		326,901
Processing and marketing		22,538		24,636
Farm-related business		24,203		24,650
Rural residential real estate		98,151		87,663
Other (including Mission Related)		171		180
Total loans	$	2,032,472	$	1,921,622

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present the principal balance of participation loans at periods ended:

September 30, 2021	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,149	$ 138,429	$ 346	$ 8,053	$ –	$ –	$ 9,495	$ 146,482
Production and intermediate-term	1,613	29,695	1,322	–	2,618	–	5,553	29,695
Processing and marketing	–	127,583	181	22,705	–	–	181	150,288
Farm-related business	950	12,568	–	–	–	–	950	12,568
Total	$ 11,712	$ 308,275	$ 1,849	$ 30,758	$ 2,618	$ –	$ 16,179	$ 339,033

December 31, 2020	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,908	$ 143,574	$ 365	$ 8,590	$ –	$ –	$ 10,273	$ 152,164
Production and intermediate-term	1,402	157,857	1,417	–	2,907	–	5,726	157,857
Processing and marketing	–	104,354	251	26,056	–	–	251	130,410
Farm-related business	1,143	10,709	–	–	–	–	1,143	10,709
Total	$ 12,453	$ 416,494	$ 2,033	$ 34,646	$ 2,907	$ –	$ 17,393	$ 451,140

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest, unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	September 30, 2021	December 31, 2020
Real estate mortgage:		
Acceptable	98.23%	97.59%
OAEM	0.96	1.43
Substandard/doubtful/loss	0.81	0.98
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	96.36%	96.16%
OAEM	2.31	2.28
Substandard/doubtful/loss	1.33	1.56
	100.00%	100.00%
Processing and marketing:		
Acceptable	94.66%	94.04%
OAEM	–	–
Substandard/doubtful/loss	5.34	5.96
	100.00%	100.00%
Farm-related business:		
Acceptable	89.41%	86.91%
OAEM	5.84	6.96
Substandard/doubtful/loss	4.75	6.13
	100.00%	100.00%

	September 30, 2021	December 31, 2020
Rural residential real estate:		
Acceptable	98.83%	98.45%
OAEM	0.63	0.92
Substandard/doubtful/loss	0.54	0.63
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	97.79%	97.20%
OAEM	1.22	1.61
Substandard/doubtful/loss	0.99	1.19
	100.00%	100.00%

The following tables provide an aging analysis of the recorded investment of past due loans as of:

	September 30, 2021				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 9,654	$ 3,637	$ 13,291	$ 1,543,170	$ 1,556,461
Production and intermediate-term	1,092	2,983	4,075	343,539	347,614
Processing and marketing	–	–	–	22,745	22,745
Farm-related business	426	868	1,294	23,052	24,346
Rural residential real estate	558	26	584	97,950	98,534
Other (including Mission Related)	–	–	–	172	172
Total	$ 11,730	$ 7,514	$ 19,244	$ 2,030,628	$ 2,049,872

	December 31, 2020				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 9,385	$ 3,069	$ 12,454	$ 1,456,362	$ 1,468,816
Production and intermediate-term	1,214	2,757	3,971	327,676	331,647
Processing and marketing	421	–	421	24,467	24,888
Farm-related business	507	822	1,329	23,513	24,842
Rural residential real estate	774	69	843	87,092	87,935
Other (including Mission Related)	–	–	–	181	181
Total	$ 12,301	$ 6,717	$ 19,018	$ 1,919,291	$ 1,938,309

Nonperforming assets (including related accrued interest as applicable) and related credit quality statistics at period end were as follows:

	September 30, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	$ 7,053	$ 8,659
Production and intermediate-term	4,394	5,119
Processing and marketing	881	–
Farm-related business	939	1,292
Rural residential real estate	145	210
Total	$ 13,412	$ 15,280
Accruing restructured loans:		
Real estate mortgage	$ 6,471	$ 4,142
Production and intermediate-term	945	853
Rural residential real estate	30	141
Total	$ 7,446	$ 5,136
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 20,858	$ 20,416
Other property owned	313	1,170
Total nonperforming assets	$ 21,171	$ 21,586
Nonaccrual loans as a percentage of total loans	0.66%	0.80%
Nonperforming assets as a percentage of total loans and other property owned	1.04%	1.12%
Nonperforming assets as a percentage of capital	4.76%	4.95%

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	September 30, 2021	December 31, 2020
Impaired nonaccrual loans:		
Current as to principal and interest	$ 4,721	$ 6,510
Past due	8,691	8,770
Total	$ 13,412	$ 15,280
Impaired accrual loans:		
Restructured	$ 7,446	$ 5,136
90 days or more past due	–	–
Total	$ 7,446	$ 5,136
Total impaired loans	$ 20,858	$ 20,416
Additional commitments to lend	$ –	$ –

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	September 30, 2021			Three Months Ended September 30, 2021		Nine Months Ended September 30, 2021	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	$ 95	$ 111	$ 5	$ 101	$ 2	$ 101	$ 6
Production and intermediate-term	422	432	106	447	6	447	26
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	167	167	25	178	2	177	10
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 684	$ 710	$ 136	$ 726	$ 10	$ 725	$ 42
With no related allowance for credit losses:							
Real estate mortgage	$ 13,429	$ 15,565	$ –	$ 14,254	$ 199	$ 14,249	$ 826
Production and intermediate-term	4,917	6,945	–	5,219	73	5,218	303
Processing and marketing	881	904	–	935	13	934	54
Farm-related business	772	1,218	–	819	12	820	48
Rural residential real estate	175	245	–	185	3	185	11
Total	$ 20,174	$ 24,877	$ –	$ 21,412	$ 300	$ 21,406	$ 1,242
Total impaired loans:							
Real estate mortgage	$ 13,524	$ 15,676	$ 5	$ 14,355	$ 201	$ 14,350	$ 832
Production and intermediate-term	5,339	7,377	106	5,666	79	5,665	329
Processing and marketing	881	904	–	935	13	934	54
Farm-related business	939	1,385	25	997	14	997	58
Rural residential real estate	175	245	–	185	3	185	11
Total	$ 20,858	$ 25,587	$ 136	$ 22,138	$ 310	$ 22,131	$ 1,284

	December 31, 2020			Year Ended December 31, 2020	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 169	$ 172	$ 10	$ 177	$ 12
Production and intermediate-term	556	555	79	583	39
Farm-related business	436	443	97	457	30
Rural residential real estate	–	–	–	–	–
Total	$ 1,161	$ 1,170	$ 186	$ 1,217	$ 81
With no related allowance for credit losses:					
Real estate mortgage	$ 12,632	$ 15,164	$ –	$ 13,250	$ 885
Production and intermediate-term	5,416	7,122	–	5,682	380
Farm-related business	856	1,101	–	898	60
Rural residential real estate	351	414	–	368	25
Total	$ 19,255	$ 23,801	$ –	$ 20,198	$ 1,350
Total impaired loans:					
Real estate mortgage	$ 12,801	$ 15,336	$ 10	$ 13,427	$ 897
Production and intermediate-term	5,972	7,677	79	6,265	419
Farm-related business	1,292	1,544	97	1,355	90
Rural residential real estate	351	414	–	368	25
Total	$ 20,416	$ 24,971	$ 186	$ 21,415	$ 1,431

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Rural Residential Real Estate	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:						
Balance at June 30, 2021	$ 13,049	$ 2,946	$ 545	$ 813	$ 1	$ 17,354
Charge-offs	–	(126)	(111)	–	–	(237)
Recoveries	8	10	–	7	–	25
Provision for loan losses	412	283	(1)	32	–	726
Balance at September 30, 2021	$ 13,469	$ 3,113	$ 433	$ 852	$ 1	$ 17,868
Balance at December 31, 2020	$ 13,021	$ 3,017	$ 538	$ 779	$ 2	$ 17,357
Charge-offs	(41)	(332)	(183)	(7)	–	(563)
Recoveries	89	117	1	14	–	221
Provision for loan losses	400	311	77	66	(1)	853
Balance at September 30, 2021	$ 13,469	$ 3,113	$ 433	$ 852	$ 1	$ 17,868
Balance at June 30, 2020	$ 12,076	$ 3,191	$ 622	$ 626	$ 4	$ 16,519
Charge-offs	(12)	(160)	(26)	–	–	(198)
Recoveries	14	45	–	–	–	59
Provision for loan losses	615	232	(66)	91	–	872
Balance at September 30, 2020	$ 12,693	$ 3,308	$ 530	$ 717	$ 4	$ 17,252
Balance at December 31, 2019	$ 11,485	$ 3,868	$ 400	$ 604	$ 4	$ 16,361
Charge-offs	(12)	(880)	(131)	(5)	–	(1,028)
Recoveries	189	145	–	4	–	338
Provision for loan losses	1,031	175	261	114	–	1,581
Balance at September 30, 2020	$ 12,693	$ 3,308	$ 530	$ 717	$ 4	$ 17,252
Allowance on loans evaluated for impairment:						
Individually	$ 5	$ 106	$ 25	$ –	$ –	$ 136
Collectively	13,464	3,007	408	852	1	17,732
Balance at September 30, 2021	$ 13,469	$ 3,113	$ 433	$ 852	$ 1	$ 17,868
Individually	$ 10	$ 79	$ 97	$ –	$ –	$ 186
Collectively	13,011	2,938	441	779	2	17,171
Balance at December 31, 2020	$ 13,021	$ 3,017	$ 538	$ 779	$ 2	$ 17,357
Recorded investment in loans evaluated for impairment:						
Individually	$ 13,524	$ 5,339	$ 1,820	$ 175	$ –	$ 20,858
Collectively	1,542,937	342,275	45,271	98,359	172	2,029,014
Balance at September 30, 2021	$ 1,556,461	$ 347,614	$ 47,091	$ 98,534	$ 172	$ 2,049,872
Individually	$ 12,873	$ 5,972	$ 1,292	$ 351	$ –	$ 20,488
Collectively	1,455,943	325,675	48,438	87,584	181	1,917,821
Balance at December 31, 2020	$ 1,468,816	$ 331,647	$ 49,730	$ 87,935	$ 181	$ 1,938,309

**Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

	Three Months Ended September 30, 2021				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 55	$ 512	$ –	$ 567	
Production and intermediate-term	–	431	–	431	
Total	$ 55	$ 943	$ –	$ 998	
Post-modification:					
Real estate mortgage	$ 57	$ 512	$ –	$ 569	$ (15)
Production and intermediate-term	–	438	–	438	–
Total	$ 57	$ 950	$ –	$ 1,007	$ (15)

	Nine Months Ended September 30, 2021				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 403	$ 3,781	$ –	$ 4,184	
Production and intermediate-term	–	713	–	713	
Total	$ 403	$ 4,494	$ –	$ 4,897	
Post-modification:					
Real estate mortgage	$ 409	$ 3,782	$ –	$ 4,191	$ (15)
Production and intermediate-term	–	719	–	719	–
Total	$ 409	$ 4,501	$ –	$ 4,910	$ (15)

	Three Months Ended September 30, 2020				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 401	$ 897	$ –	$ 1,298	
Production and intermediate-term	–	1,163	–	1,163	
Total	$ 401	$ 2,060	$ –	$ 2,461	
Post-modification:					
Real estate mortgage	$ 407	$ 902	$ –	$ 1,309	$ –
Production and intermediate-term	–	1,173	–	1,173	(76)
Total	$ 407	$ 2,075	$ –	$ 2,482	$ (76)

	Nine Months Ended September 30, 2020				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 690	$ 2,401	$ –	$ 3,091	
Production and intermediate-term	–	1,779	–	1,779	
Total	$ 690	$ 4,180	$ –	$ 4,870	
Post-modification:					
Real estate mortgage	$ 697	$ 2,437	$ –	$ 3,134	$ –
Production and intermediate-term	–	1,826	–	1,826	(103)
Total	$ 697	$ 4,263	$ –	$ 4,960	$ (103)

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Real estate mortgage	$ 360	$ 280	$ 510	$ 455
Production and intermediate-term	–	–	–	178
Rural residential real estate	–	109	–	219
Total	$ 360	$ 389	$ 510	$ 852

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table:

	Total TDRs		Nonaccrual TDRs	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Real estate mortgage	$ 10,816	$ 7,939	$ 4,345	$ 3,797
Production and intermediate-term	1,655	1,753	710	900
Farm-related business	3	3	3	3
Rural residential real estate	30	141	–	–
Total loans	$ 12,504	$ 9,836	$ 5,058	$ 4,700
Additional commitments to lend	$ –	$ –		

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At September 30, 2021 the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	September 30, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,806	$ 344	$ –	$ 4,150	6.70%

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,950	$ 498	$ –	$ 4,448	6.67%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	September 30, 2021		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	3,806	4,150	6.70
Total	$ 3,806	$ 4,150	6.70%

All of these investments have contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. The Association had no investments that were in a continuous unrealized loss position for the periods presented.

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

Equity Investments in Other Farm Credit System Institutions

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 6.88 percent of the issued stock of the Bank as of September 30, 2021 net of any reciprocal investment. As of that date, the Bank's assets totaled $37.9 billion and shareholders' equity totaled $2.7 billion. The Bank's earnings were $357 million for the first nine months of 2021. In addition, the Association held investments of $3,880 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Employee Benefit Plans:				
Balance at beginning of period	$ (681)	$ (525)	$ (693)	$ (532)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	6	4	18	11
Net current period other comprehensive income	6	4	18	11
Balance at end of period	$ (675)	$ (521)	$ (675)	$ (521)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (6)	$ (4)	$ (18)	$ (11)	See Note 7.
Net amounts reclassified	$ (6)	$ (4)	$ (18)	$ (11)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

	September 30, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 2,010	$ 2,010	$ –	$ –	$ 2,010
Recurring Assets	$ 2,010	$ 2,010	$ –	$ –	$ 2,010
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 548	$ –	$ –	$ 548	$ 548
Other property owned	313	–	–	380	380
Nonrecurring Assets	$ 861	$ –	$ –	$ 928	$ 928
Other Financial Instruments					
Assets:					
Cash	$ 32	$ 32	$ –	$ –	$ 32
Investment securities, held-to-maturity	3,806	–	–	4,150	4,150
Loans	2,015,190	–	–	2,036,610	2,036,610
Other Financial Assets	$ 2,019,028	$ 32	$ –	$ 2,040,760	$ 2,040,792
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,623,429	$ –	$ –	$ 1,626,151	$ 1,626,151
Other Financial Liabilities	$ 1,623,429	$ –	$ –	$ 1,626,151	$ 1,626,151

	December 31, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,909	$ 1,909	$ –	$ –	$ 1,909
Recurring Assets	$ 1,909	$ 1,909	$ –	$ –	$ 1,909
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 975	$ –	$ –	$ 975	$ 975
Other property owned	1,170	–	–	1,369	1,369
Nonrecurring Assets	$ 2,145	$ –	$ –	$ 2,344	$ 2,344
Other Financial Instruments					
Assets:					
Cash	$ 133	$ 133	$ –	$ –	$ 133
Investment securities, held-to-maturity	3,950	–	–	4,448	4,448
Loans	1,906,564	–	–	1,933,290	1,933,290
Other Financial Assets	$ 1,910,647	$ 133	$ –	$ 1,937,738	$ 1,937,871
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,538,795	$ –	$ –	$ 1,553,370	$ 1,553,370
Other Financial Liabilities	$ 1,538,795	$ –	$ –	$ 1,553,370	$ 1,553,370

Uncertainty in Measurements of Fair Value

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investment Securities

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 928	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates
		Risk-adjusted discount rate
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 7 — Employee Benefit Plans

The following is a table of retirement and other postretirement benefit expenses for the Association:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Pension	$ 1,244	$ 1,040	$ 3,732	$ 3,121
401(k)	360	303	1,120	975
Other postretirement benefits	217	228	661	678
Total	$ 1,821	$ 1,571	$ 5,513	$ 4,774

Expenses in the above table are computed using allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2021.

Further details regarding employee benefit plans are contained in the 2020 Annual Report to Shareholders.

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for monetary damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association.

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2021, which was the date the financial statements were issued.

On October 18, 2021, AgFirst's Board of Directors indicated an intention to declare, in December 2021, a special patronage distribution. The Association will receive between approximately $18,920 and $19,709 which will be recorded as patronage refunds from other Farm Credit institutions.