
AgSouth Farm Credit, ACA

SECOND QUARTER 2021

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CERTIFICATION

The undersigned certify that we have reviewed the June 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.

/s/ Pat Calhoun
Chief Executive Officer

/s/ Bo Fennell
Chief Financial Officer

/s/ Hugh E. Weathers
Chairman of the Board

August 6, 2021

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 June 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 June 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 June 30, 2021.

/s/ Pat Calhoun
Chief Executive Officer

/s/ Bo Fennell
Chief Financial Officer

August 6, 2021

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 June 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 \$1,708,069 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 conditions in June.

During the first half of 2021, significant progress has been made in the fight against COVID-19 with the distribution of vaccines. However, the highly contagious Delta variant has raised doubts about how quickly the world will return to “pre-pandemic” norms. Uncertainty remains as to the ability to vaccinate those unvaccinated nationwide and globally and when the restrictions that were imposed to slow the spread of the pandemic will be lifted entirely or if those restrictions that were previously lifted will be reinstated. In this regard, the Association will adjust its business continuity plan to maintain the most effective and efficient business operations while safeguarding the health and safety of employees. In addition, the Association continues to work with borrowers to offer appropriate solutions to meet their operating and liquidity needs.

See further discussion of business risks associated with COVID-19 in the 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.

On March 11, 2021, Congress passed the American Rescue Plan Act of 2021 that provided an additional \$1.9 trillion of economic stimulus. Among other provisions is \$10.4 billion for agriculture and USDA, including \$4 billion and \$1 billion for debt forgiveness and outreach/support, respectively, for socially disadvantaged farmers.

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 provides support to small businesses to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States.

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

AGRICULTURE OVERVIEW

The second quarter of 2021 ended with continued progress towards a less COVID restricted economy. In the June 9, 2021 projection the Conference Board forecast US Real GDP growth is expected to rise to 9.0 percent (annualized rate) in second quarter 2021 and 6.6 percent (year over year) in 2021. Federal Reserve Chairman Jerome Powell has indicated his belief that inflation will be transitory but he stated “as the reopening continues, shifts in demand can be large and rapid and bottlenecks, hiring difficulties and other constraints could continue to limit how quickly supply can adjust, raising the possibility that inflation could turn out to be higher and more persistent than we expect.” The Federal Reserve continues to plan to keep interest rates low with expected hikes in 2023.

In its news release dated July 2, 2021 The US Bureau of Labor Statistics reports the unemployment rate was at 5.9 percent in June 2021. This is a slight decrease from March’s 6.0 percent. Georgia was at 4.0 percent for June, down from 4.5 percent in March. South Carolina was at 4.5 percent for June, down from 5.1 percent in March. The Conference Board Leading Economic Index (LEI) for the US increased 0.7 percent in June to 115.1, following a 1.2 percent increase in May, and a 1.3 percent increase in April.

The USDA June *Acreage Report*, released on June 30, 2021, showed Georgia’s corn planted for all purposes at 460,000 acres, up 9.5 percent from 2020. South Carolina’s corn crop is estimated at 430,000 acres, up 7.5 percent from 2020. Soybeans planted in Georgia are estimated at 130,000 acres, up 30 percent from last year. South Carolina’s soybean crop is estimated at 390,000 acres, up 26 percent from 2020. The 2020 Georgia cotton crop is estimated at 1.2 million acres, up less than one percent from prior year. South Carolina’s cotton acreage is estimated at 200,000 acres, up 5.3 percent from 2020. The Georgia 2021 peanut acres planted are estimated at 830,000 acres, up 2.5 percent from 2020. South Carolina’s

peanut crop is estimated at 65,000 acres, down 23.5 percent from 2020. Tobacco planted acres in both Georgia and South Carolina increased over 2020 at 7.6 percent and 50 percent, respectively. Winter wheat acres are up 15.8 percent and 18.2 percent, respectively, for Georgia and South Carolina.

According to the US Department of Agriculture (USDA) National Agricultural Statistics Service (NASS) *Crop Progress and Condition Report*, crop progress in Georgia and South Carolina for the week ending July 4, 2021 indicates 91 percent of the corn crop in Georgia in the silking stage with South Carolina at 95 percent. The Georgia cotton crop is progressing well and in line with historical averages. The South Carolina cotton crop progress is slightly ahead of prior year and in line with historical averages. The report showed the Georgia peanut crop to be 62 percent in the pegging stage with South Carolina at 54 percent. Soybean progress in both states is in line with historical averages. Peach harvest is behind prior year and slightly behind historical averages in both Georgia and South Carolina.

The July 6, 2021 USDA NASS Georgia and South Carolina *Crop Progress and Condition Report* shows precipitation estimates for Georgia ranging from 0.16 inches to 4.75 inches and South Carolina ranged from no rain to 4.2 inches. The report showed the condition of the Georgia cotton crop at 73 percent good to excellent and 23 percent fair. The South Carolina cotton crop was reported to be 73 percent good to excellent and 24 percent fair. Peanut conditions for Georgia showed 74 percent good to excellent and 24 percent fair. The South Carolina peanut crop was reported to be 78 percent good to excellent and 18 percent fair. Pasture and Range conditions for Georgia showed 66 percent good to excellent and 27 percent fair, with South Carolina reported to be 59 percent good to excellent and 35 percent fair. South Carolina soil moisture for week ending July 4, 2021 indicated top soil moisture as 89 percent adequate to surplus and 11 percent short. Georgia’s soil moisture was reported to be 89 percent adequate to surplus and 10 percent short. Crops overall in both South Carolina and Georgia are in fair to excellent condition.

The USDA NASS released its June *Cattle on Feed Report* on June 25, 2021. It shows the number of “cattle and calves on feed for the slaughter market in the United States for feedlots with capacity of 1,000 or more head totaled 11.7 million head on June 1, 2021. That is slightly above June 1, 2020 and the second highest June 1 inventory since the report began in 1996.” “Placements in feedlots during May totaled 1.91 million head, 7 percent below 2020.” “Marketings of fed cattle during May totaled 1.87 million head, 23 percent above 2020.”

The USDA NASS *Broiler Hatchery Report* showed broiler growers in the US placed 189 million chicks for meat production during the week ending June 26, 2021, down just slightly from a year ago. Georgia chick placements were 27.2 million and South Carolina chick placements were 5.3 million for the same week. Hatcheries in the US set 239 million eggs, up 2 percent from a year ago, for the week ending June 26, 2021.

As reported in the TimberMart-South second quarter 2021 market bulletin, south-wide average stumpage prices increased for all major pine and hardwood categories. Prices for both pine sawtimber and pine chip-n-saw reached their highest level in over 5 years. This increase bucked the seasonal trend, as the south-wide average increased quarter over quarter in the second quarter for the first time since 2010 and only the second time in the last 15 years. There was a first quarter to second quarter drop in pine pulpwood which was expected, as pine pulpwood has only increased quarter to quarter in the second quarter once in the last 25 years.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of June 30, 2021 was \$1,990,180 an increase of \$68,558 or 3.57 percent compared to \$1,921,622 at December 31, 2020. Net loans outstanding at June 30, 2021 were \$1,972,826 as compared to \$1,904,265 at December 31, 2020. Net loans accounted for 96.25 percent of total assets at June 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 most 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 and volatile 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 June 30, 2021 Investments in debt securities totaled \$3,854, a decrease of \$96 from December 31, 2020. The 2.43 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 increased from \$15,280 at December 31, 2020 to \$15,496 at June 30, 2021. The balance of nonaccrual loans is increased by transfers to nonaccrual status offset by liquidations, loans returning to accrual status, or transfer of assets to other property owned. 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 June 30, 2021 was \$17,354 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 \$746 which is an increase of \$3 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 June 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 second quarter of 2021, the Association had originated \$143,672 in loans for the secondary market. Originations for the same period 2020 were \$121,248. The 18.49 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 June 30, 2021 the Association held \$2,069 in qualifying Loans held for sale. At December 31, 2020 loans held for sale totaled \$3,274.

Accrued interest receivable decreased \$715 or 4.28 percent from \$16,711 as of December 31, 2020 to \$15,996 as of June 30, 2021. The decrease is related to the lower interest rates at June 30, 2021 compared to December 31, 2020.

Equity investments in other Farm Credit institutions decreased from \$22,469 at December 31, 2020 to \$22,445 at June 30, 2021. The decrease of \$24, 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 increased \$70 from \$21,309 at December 31, 2020 to \$21,379 at June 30, 2021. The primary reasons for the increase of less than one percent is the result of the purchase of computer equipment and the purchase of Association vehicles.

Other property owned decreased to \$816 at June 30, 2021 from \$1,170 at December 31, 2020. The decrease of \$354 or 30.26 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 \$24,793 from \$32,421 at December 31, 2020 to \$7,628 at June 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 June 30, 2021 this line item included two quarters of patronage accrual from AgFirst and other Farm Credit institutions totaling \$7,193.

Other assets increased from \$2,129 at December 31, 2020 to \$2,520 at June 30, 2021. The majority of other assets is made up of prepaid retirement expense which totaled \$1,327 as of June 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 \$1,583,894 at June 30, 2021. The \$45,099 or 2.93 percent increase is tied to the increase in loans outstanding.

Accrued interest payable decreased \$96, or 2.85 percent, from \$3,363 at December 31, 2020 to \$3,267 at June 30, 2021. The decrease is tied to the decrease in the direct note rate on the notes payable balance outstanding.

Patronage refunds payable decreased \$2,222 from \$12,501 at December 31, 2020 to \$10,279 at June 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. At June 30, 2021 the Board had declared a \$10,000 Special All Cash Distribution from 2020 earnings. Checks were mailed no later than July 30, 2021 to members. No patronage distribution had been declared for 2021 as of June 30, 2021.

Accounts payable decreased \$167 from \$1,873 at December 31, 2020 to \$1,706 at June 30, 2021. The 8.92 percent decrease 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 June 30, 2021 the payable was \$1,119.

Other liabilities increased \$2,730 from \$14,798 at December 31, 2020 to \$17,528 at June 30, 2021. The 18.45 percent increase is due to a payable established for the 2015 Allocated Surplus distribution and the cash portion for the 2020 Patronage distribution. These liabilities will decrease as checks are presented for payment at the commercial bank.

Capital stock and participation certificates increased from \$10,626 at December 31, 2020 to \$11,004 at June 30, 2021. The increase of \$378 or 3.56 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 \$121,137 at June 30, 2021. This is a decrease of \$18,620 or 13.32 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 revolvment totaled \$18,351. The checks and notices for this revolvment were generated and mailed in February 2021.

Unallocated surplus increased \$14,787 or 5.16 percent from the December 31, 2020 balance of \$286,811. The balance of \$301,598 at June 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 \$12 or 1.73 percent from the December 31, 2020 balance of \$693. At June 30, 2021 there was a balance of \$681.

RESULTS OF OPERATIONS

For the three months ended June 30, 2021

Net income for the three months ended June 30, 2021 totaled \$12,432 as compared to \$11,531 for the same period in 2020. This is an increase of \$901 or 7.81 percent. Comprehensive income for the three months ended June 30, 2021 was \$12,438 compared to \$11,534 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 June 30, 2021 interest income on loans decreased \$85 from \$26,453 at June 30, 2020 to \$26,368 at June 30, 2021. This decrease of less than one percent is primarily due a decrease in portfolio loan yield between the two reporting periods.

For the three months ended June 30, 2021 interest income on investments totaled \$67 compared to \$73 for the three months ended June 30, 2020. Investment income declined \$6 or 8.22 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense for the three months ended June 30, 2021 decreased \$834 from \$10,594 at June 30, 2020 to \$9,760 at June 30, 2021. The variance of 7.87 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 \$743 for the three months ended June 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 \$1,007 during the quarter ending June 30, 2021 compared to June 30, 2020. A provision for loan losses of \$189 was made in the quarter ending June 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 \$641 over the same period last year. The commentary that follows will detail the aggregate difference.

Loan fees increased \$51, or 3.09 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 \$78 from \$92 at June 30, 2020 to \$170 at June 30, 2021. The increase of 84.78 percent is primarily due to the increase in leasing income earned during the reporting period.

Patronage refunds from other Farm Credit institutions increased \$273 from \$3,675 at June 30, 2020 to \$3,948 at June 30, 2021. The increase of 7.43 percent is related to an increase in loans sold to AgFirst and other Farm Credit Institutions. See *Note 2* for more information.

Gains on the sale of rural home loans decreased \$16 from \$725 at June 30, 2020 compared to \$709 at June 30, 2021. The decrease is due to the decrease in volume in the construction to permanent product offered by Secondary Mortgage Markets. The decreased volume for this product has resulted in a decline of related fee income.

Gains on the sale of premises and equipment, net for the period ending June 30, 2021 totaled \$130 compared to \$78 for the period ending June 30, 2020. The Association sold multiple Association owned vehicles during the second quarter of 2021.

Gains on other transactions totaled \$122 at June 30, 2021 compared to a Loss on other transactions of \$97 at June 30, 2020. The difference of \$219 or 225.77 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 June 30 in 2021 or 2020. The FCSIC has not declared a refund to Farm Credit System Associations for 2021.

Other noninterest income was \$61 during the three months ended June 30, 2021 compared to \$77 for the three months ending June 30, 2020. The \$16 or 20.78 percent decrease is due to the lower recovery of income on nonaccrual accounts in 2021 compared to 2020.

Noninterest expense for the three months ended June 30, 2021 totaled \$10,896 and increased \$766 or 7.56 percent when compared to \$10,130 for the same period of 2020. Salaries and employee benefits expense is the largest portion of noninterest expense and totaled \$8,220 for the three months ended June 30, 2021. Salaries and employee benefits increased \$348 between the two reporting periods. There is a 4.42 percent variance between the two reporting periods due to the increase in

secondary market mortgage commission paid tied to the increase in originations.

Occupancy and equipment expense at June 30, 2021 was \$491 compared to \$510 for the same period in 2020. This is a decrease of \$19 or 3.73 percent. The decrease is tied to the lower property insurance premiums in 2021 as well as less computer equipment purchases made in 2020.

The Insurance Fund premiums at June 30, 2021 were \$571 and at June 30, 2020 were \$273. The \$298 or 109.16 percent increase is due to the higher premium assessment rate in 2021.

In the three months ending June 30, 2021 the Association experienced Losses on the sale of Other property owned in the amount of \$5. During the same period of 2020, the Association booked Losses on the sale of Other property owned of \$50. The loss is the result of write-downs on properties sold during the second quarter.

Other operating expenses increased \$184 from \$1,425 at June 30, 2020 compared to \$1,609 at June 30, 2021. The increase of 12.91 percent is attributed to an increase in directors expense, purchase services, Association vehicles, and marketing activities.

For the six months ended June 30, 2021

Net income for the six months ended June 30, 2021, totaled \$24,537 as compared to \$22,569 for the same period in 2020. This is an increase of \$1,968 or 8.72 percent. Comprehensive income for the six months ended June 30, 2021 was \$24,549 compared to \$22,576 for the six months ended June 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 June 30, 2021 interest income on loans decreased \$957 to \$52,534 compared to \$53,491 for the same period in 2020. The decrease is tied to decrease in the overall weighted average interest rate earned.

For the six months ending June 30, 2020 interest income on investments totaled \$156 compared to \$134 for the same period ended June 30, 2021. Investment income declined \$22 or 14.10 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense decreased \$2,717 or 12.36 percent from \$21,981 at June 30, 2020 to \$19,264 for the six months ended June 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 \$1,738 or 5.49 percent for the six months ended June 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 \$2,320 for the period ending June 30, 2021 primarily due to an increase in loan volume, as well.

The Provision for loan losses amount in the 2020 reporting period totaled \$709 and there were provision entries totaling \$127 in the 2021 reporting period. In June 2021, the Association's ALCO made the decision to lower the allowance requiring a decrease 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 six months ended June 30, 2021 increased \$1,476 compared to the same period of 2020. Loan fees increased \$657 or 23.95 percent. In the first six months of 2021, SMM origination fee income increased \$469 to \$2,126 compared to \$1,657 for 2020. Miscellaneous fee income was \$1,076 at June 30, 2021 compared to \$820 at June 30, 2020. This is an increase of \$256 or 31.22 percent.

Fees for financially related services increased \$255 from \$462 at June 30, 2020 compared to \$717 at June 30, 2021. The 55.19 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 \$316 from \$7,117 at June 30, 2020 to \$7,433 at June 30, 2021. The increase of 4.44 percent is due to an increase in the average balance of loans sold to AgFirst and other Farm Credit institutions which resulted in a higher patronage refund amount accrued.

Gains on the sale of rural home loans increased \$58 from \$1,325 at June 30, 2020 to \$1,383 at June 30, 2021. Gains increased due to the increase in loan volume compared to the prior period.

Gains on the sale of premises and equipment increased \$30 from \$100 for the period ending June 30, 2020 to \$130 at June 30, 2021. The gains were recorded when Association vehicles were sold during the second quarter of 2021.

Gains on other transactions totaled \$188 for the six months ended June 30, 2021 compared to a loss of \$324 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 June 30, 2021 compared to \$339 during the six months ended June 30, 2020. The Farm Credit System Insurance Corporation (FCSIC) has not declared a refund for 2021.

Other noninterest income decreased \$13 from \$136 at June 30, 2020 compared to \$123 at June 30, 2021. The variance of 9.56

percent is due to volume premiums paid by AgFirst for secondary market activity.

Noninterest expense for the six months ended June 30, 2021 increased \$1,849 compared to the same period of 2020 from \$20,267 to \$22,116. Salaries and employee benefits expense increased \$1,650 between the two reporting periods. The 10.99 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 June 30, 2021 is \$1,810. 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 June 30, 2021 was \$1,226 compared to \$1,182 for the same period in 2020. The increase is tied to higher costs associated with cost of space and depreciation.

The Insurance Fund premiums increased from \$537 at June 30, 2020 to \$1,119 at June 30, 2021. The increase of \$582 or 108.38 percent is due to the higher insurance fund premium rate in 2021 compared to 2020.

Gains on other property owned, net totaled \$26 for the six months ending June 30, 2021. When compared to the same period in 2020, losses on other property owned totaled \$220. The increase is due to the gains recognized on the sale of other property owned exceeding any write-downs.

Other operating expenses decreased \$181 from \$3,318 at June 30, 2020 compared to \$3,137 at June 30, 2021. The decrease is primarily due to expense decreases in training and those expenses related to nonaccrual accounts.

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 June 30, 2021 was

\$1,583,894 as compared to \$1,538,795 at December 31, 2020. The \$45,099 increase, or 2.93 percent, is directly tied to the increase in loan volume.

CAPITAL RESOURCES

Total members' equity at December 31, 2020 totaled \$436,501. At June 30, 2021 total members' equity had decreased by \$3,443 to \$433,058. The decrease 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 \$121,137 at June 30, 2021. The decrease is due to the revolvment 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 \$301,598. 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 \$11,004 on June 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 revolvment, 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 revolvment 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 June 30, 2021
Risk-adjusted ratios:		
CET1 Capital	7.00%	15.16%
Tier 1 Capital	8.50%	15.16%
Total Capital	10.50%	22.40%
Permanent Capital Ratio	7.00%	21.66%
Non-risk-adjusted:		
Tier 1 Leverage Ratio	5.0%	14.69%
UREE Leverage Ratio	1.5%	14.45%

REGULATORY MATTERS

On July 8, 2021, the FCA approved 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. Once the proposed rule is published in the Federal Register, the 90-day public comment period will commence.

On September 10, 2020, the FCA issued a proposed rule that would amend 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 proposed 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 public comment period ended on November 9, 2020.

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 U.S. 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 that are issued by the Funding Corporation on the Bank's and Association's behalf. 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 LIBOR transition could result in paying higher interest rates on current LIBOR-indexed Systemwide Debt Securities, adversely affect the yield on, and fair value of, loans and investments held that reference LIBOR, and increase the costs of or affect the ability to effectively use derivative instruments to manage interest rate risk. In addition, there could be other ramifications including those that may arise as a result of the need to redeem or terminate such instruments.

The FCA has issued guidelines 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 over time. The FCA identified the following as important considerations in the development of each entity's transition plan:

- a governance structure to manage the transition;
- an assessment of exposures to LIBOR;
- an assessment of the fallback provisions in contracts and the impact of a LIBOR phase-out under those provisions;
- the establishment of strategies for reducing each type of LIBOR exposure;
- an assessment of the operational processes that need to be changed;
- a communication strategy for customers and shareholders;
- the establishment of a process to stay abreast of industry developments and best practices;
- the establishment of a process to ensure a coordinated approach, to the extent possible, across the District; and
- a timeframe and action steps for completing key objectives.

The Association has established and is in the process of implementing LIBOR transition plans, including implementing fallback language into variable-rate financial instruments which provides the ability to move these instruments to another index if the LIBOR market is no longer viable, 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.

At this time, it is not known when LIBOR will completely cease to be available or will become unrepresentative, or which benchmark will replace LIBOR. However, in light of the announcements by the UK FCA, the IBA and US prudential regulators noted above, US dollar LIBOR, except in very limited circumstances, will be discontinued or declared unrepresentative (depending on the tenor) as of either immediately after December 31, 2021 or June 30, 2023. Because the Bank and Associations engage in transactions involving financial instruments that reference LIBOR, these

developments could have a material impact on financial results, borrowers, investors, and counterparties.

For example, on April 6, 2021, the New York Governor signed into law the New York State Legislature's Senate Bill 297B/Assembly Bill 164B (the New York LIBOR Legislation). The New York LIBOR Legislation amends the New York General Obligations Law by adding new Article 18-c and mirrors a legislative proposal drafted by the Alternative Reference Rates Committee (the ARRC) aimed at ensuring legal clarity for legacy instruments governed by New York law during the US dollar LIBOR transition. The ARRC is an industry-working group convened by the Federal Reserve Board and the New York Fed to lead the LIBOR transition, which, among other work, has developed industry-specific fallback language that may be used by market participants to address the cessation of US dollar LIBOR. The New York LIBOR Legislation applies to US dollar LIBOR-based contracts, securities, and instruments governed under New York law that (i) do not have any US dollar LIBOR fallback provisions in place, (ii) have US dollar LIBOR fallback provisions that result in replacement rates that are in some way based on US dollar LIBOR, or (iii) have US dollar LIBOR fallback provisions that allow or require one of the parties or an outsider to select a replacement rate for US dollar LIBOR. The New York LIBOR Legislation (a) provides in respect of (i) and (ii) above, upon the occurrence of a "LIBOR Discontinuance Event" and the related "LIBOR Replacement Date" (each as defined in the New York LIBOR Legislation), that the then-current US dollar LIBOR based benchmark, by operation of law, be replaced by a "Recommended Benchmark Replacement" (as defined in the New York LIBOR Legislation) based on the Secured Overnight Financing Rate (SOFR), or, (b) in respect of (iii), encourages the replacement of LIBOR with the "Recommended Benchmark Replacement" by providing a safe harbor from legal challenges under New York law.

The New York LIBOR Legislation may apply to certain of the System institutions' LIBOR-based instruments. For example, to the extent there is an absence of controlling federal law or unless otherwise provided under the terms and conditions of a particular issue of Systemwide Debt Securities, the Systemwide Debt Securities are governed by and construed in accordance with the laws of the State of New York, including the New York General Obligations Law.

At present, there is no specific federal law akin to the New York LIBOR Legislation addressing the US dollar LIBOR transition. However, United States Congress began working on a draft version of federal legislation in October of 2020 that would provide a statutory substitute benchmark rate for contracts that use US dollar LIBOR as a benchmark and that do not have any sufficient fallback clauses in place. The current version of the legislation, the Adjustable Interest Rate (LIBOR) Act of 2021, was formally introduced in the House of Representatives on July 22, 2021. The bill has been assigned to the House Financial Services, Ways & Means, and Education

& Labor Committees. On July 29, 2021, The House Financial Services Committee voted to positively report the bill out of committee and send it to the full House. Consideration by the full House is not expected to take place before September of this year.

While similar to the New York LIBOR Legislation, including inclusion of a safe harbor for use of recommended LIBOR fallbacks that are based on SOFR, are differences in the current draft of the federal legislation, including, perhaps most significantly, that the draft bill specifically provides for the preemption of state law, which would include the New York LIBOR Legislation. At this time, it is uncertain as to whether, when and in what form such federal legislation would be adopted.

In light of the proliferation of alternatives to LIBOR and the slower than expected transition away from LIBOR, regulators, the ARRC and market participants have more aggressively taken steps to speed up this transition. In addition to the recent public positions taken by members of the Financial Stability Oversight Council (FSOC), including from the US prudential regulators and the Securities and Exchange Commission and the Commodity Futures Trading Commission (CFTC), the CFTC (through its Market Risk Advisory Committee (MRAC)), the ARRC and the IBA have also made statements and taken action to move the markets to transition away from LIBOR using SOFR.

In addition, on July 13, the MRAC adopted a market best practice known as "SOFR First". SOFR First is designed to help market participants decrease reliance on USD LIBOR in light of statements from the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) on the LIBOR transition which reinforce US prudential regulators' guidance that banks should cease entering new contracts that reference USD LIBOR post December 31, 2021. SOFR First recommends a phased approach to be completed by December 31, 2021. The first phase, completed on July 26, implemented the MRAC recommendation that interdealer brokers would replace their trading of LIBOR linear swaps with trading of SOFR linear swaps. In light of the successful implementation of this first phase of SOFR First and the ARRC's assessment of whether a forward looking term rate based on SOFR published by the CME Group (Term SOFR) were being met, the ARRC formally announced that Term SOFR was an appropriate fallback to LIBOR to be used for certain types of currently outstanding loans, floating rate notes (which would include certain outstanding Systemwide Debt Securities) and derivatives based on LIBOR when the LIBOR was discontinued or deemed unrepresentative, and, in more limited circumstances, for new loans, notes and other transactions, including derivatives. The successful implementation of SOFR First and the ARRC's support of Term SOFR are expected to increase the volume of transactions quoted in SOFR, supporting the implementation of the transition away from LIBOR.

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):

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
- 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.	- 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: - 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, - An allowance will be established for estimated credit losses on any debt securities, - 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.

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

<i>(dollars in thousands)</i>	June 30, 2021 <i>(unaudited)</i>	December 31, 2020 <i>(audited)</i>
Assets		
Cash	\$ 199	\$ 133
Investments in debt securities:		
Held to maturity (fair value of \$4,234 and \$4,448, respectively)	3,854	3,950
Loans	1,990,180	1,921,622
Allowance for loan losses	(17,354)	(17,357)
Net loans	1,972,826	1,904,265
Loans held for sale	2,069	3,274
Accrued interest receivable	15,996	16,711
Equity investments in other Farm Credit institutions	22,445	22,469
Premises and equipment, net	21,379	21,309
Other property owned	816	1,170
Accounts receivable	7,628	32,421
Other assets	2,520	2,129
Total assets	\$ 2,049,732	\$ 2,007,831
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,583,894	\$ 1,538,795
Accrued interest payable	3,267	3,363
Patronage refunds payable	10,279	12,501
Accounts payable	1,706	1,873
Other liabilities	17,528	14,798
Total liabilities	1,616,674	1,571,330
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	11,004	10,626
Retained earnings		
Allocated	121,137	139,757
Unallocated	301,598	286,811
Accumulated other comprehensive income (loss)	(681)	(693)
Total members' equity	433,058	436,501
Total liabilities and members' equity	\$ 2,049,732	\$ 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)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
<i>(dollars in thousands)</i>				
Interest Income				
Loans	\$ 26,368	\$ 26,453	\$ 52,534	\$ 53,491
Investments	67	73	134	156
Total interest income	26,435	26,526	52,668	53,647
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	9,760	10,594	19,264	21,981
Total interest expense	9,760	10,594	19,264	21,981
Net interest income	16,675	15,932	33,404	31,666
Provision for loan losses	189	453	127	709
Net interest income after provision for loan losses	16,486	15,479	33,277	30,957
Noninterest Income				
Loan fees	1,702	1,651	3,400	2,743
Fees for financially related services	170	92	717	462
Patronage refunds from other Farm Credit institutions	3,948	3,675	7,433	7,117
Gains (losses) on sales of rural home loans, net	709	725	1,383	1,325
Gains (losses) on sales of premises and equipment, net	130	78	130	100
Gains (losses) on other transactions	122	(97)	188	(324)
Insurance Fund refunds	—	—	—	339
Other noninterest income	61	77	123	136
Total noninterest income	6,842	6,201	13,374	11,898
Noninterest Expense				
Salaries and employee benefits	8,220	7,872	16,660	15,010
Occupancy and equipment	491	510	1,226	1,182
Insurance Fund premiums	571	273	1,119	537
(Gains) losses on other property owned, net	5	50	(26)	220
Other operating expenses	1,609	1,425	3,137	3,318
Total noninterest expense	10,896	10,130	22,116	20,267
Income before income taxes	12,432	11,550	24,535	22,588
Provision (benefit) for income taxes	—	19	(2)	19
Net income	\$ 12,432	\$ 11,531	\$ 24,537	\$ 22,569
Other comprehensive income net of tax				
Employee benefit plans adjustments	6	3	12	7
Comprehensive income	\$ 12,438	\$ 11,534	\$ 24,549	\$ 22,576

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

AgSouth Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2019	\$ 10,012	\$ 131,801	\$ 269,553	\$ 410,834
Comprehensive income			22,569	22,576
Capital stock/participation certificates issued/(retired), net	200			200
Patronage distribution				
Cash			(8,000)	(8,000)
Retained earnings retired		(21,157)		(21,157)
Patronage distribution adjustment		1,191	(1,700)	(509)
Balance at June 30, 2020	\$ 10,212	\$ 111,835	\$ 282,422	\$ 403,944
Balance at December 31, 2020	\$ 10,626	\$ 139,757	\$ 286,811	\$ 436,501
Comprehensive income			24,537	24,549
Capital stock/participation certificates issued/(retired), net	378			378
Patronage distribution				
Cash			(10,000)	(10,000)
Retained earnings retired		(18,352)		(18,352)
Patronage distribution adjustment		(268)	250	(18)
Balance at June 30, 2021	\$ 11,004	\$ 121,137	\$ 301,598	\$ 433,058

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:

	June 30, 2021	December 31, 2020
Real estate mortgage	\$ 1,522,192	\$ 1,457,592
Production and intermediate-term	326,896	326,901
Processing and marketing	22,155	24,636
Farm-related business	23,560	24,650
Rural residential real estate	95,203	87,663
Other (including Mission Related)	174	180
Total loans	\$ 1,990,180	\$ 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:

June 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	\$ 9,824	\$ 147,790	\$ 353	\$ 8,053	\$ —	\$ —	\$ 10,177	\$ 155,843
Production and intermediate-term	1,414	42,748	1,339	—	2,679	—	5,432	42,748
Processing and marketing	—	125,646	181	23,898	—	—	181	149,544
Farm-related business	975	9,646	—	—	—	—	975	9,646
Total	\$ 12,213	\$ 325,830	\$ 1,873	\$ 31,951	\$ 2,679	\$ —	\$ 16,765	\$ 357,781

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:

	June 30, 2021	December 31, 2020		June 30, 2021	December 31, 2020
Real estate mortgage:			Rural residential real estate:		
Acceptable	98.27%	97.59%	Acceptable	98.97%	98.45%
OAEM	0.85	1.43	OAEM	0.41	0.92
Substandard/doubtful/loss	0.88	0.98	Substandard/doubtful/loss	0.62	0.63
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Other (including Mission Related):		
Acceptable	96.48%	96.16%	Acceptable	100.00%	100.00%
OAEM	1.96	2.28	OAEM	—	—
Substandard/doubtful/loss	1.56	1.56	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Total loans:		
Acceptable	94.47%	94.04%	Acceptable	97.85%	97.20%
OAEM	—	—	OAEM	1.06	1.61
Substandard/doubtful/loss	5.53	5.96	Substandard/doubtful/loss	1.09	1.19
	100.00%	100.00%		100.00%	100.00%
Farm-related business:					
Acceptable	88.10%	86.91%			
OAEM	6.23	6.96			
Substandard/doubtful/loss	5.67	6.13			
	100.00%	100.00%			

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

June 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	\$ 5,932	\$ 3,128	\$ 9,060	\$ 1,524,707	\$ 1,533,767
Production and intermediate-term	1,553	3,137	4,690	325,896	330,586
Processing and marketing	—	—	—	22,376	22,376
Farm-related business	217	1,014	1,231	22,448	23,679
Rural residential real estate	751	4	755	94,816	95,571
Other (including Mission Related)	—	—	—	175	175
Total	\$ 8,453	\$ 7,283	\$ 15,736	\$ 1,990,418	\$ 2,006,154

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:

	June 30, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	\$ 8,103	\$ 8,659
Production and intermediate-term	5,176	5,119
Processing and marketing	881	—
Farm-related business	1,122	1,292
Rural residential real estate	214	210
Total	\$ 15,496	\$ 15,280
Accruing restructured loans:		
Real estate mortgage	\$ 6,451	\$ 4,142
Production and intermediate-term	1,155	853
Rural residential real estate	140	141
Total	\$ 7,746	\$ 5,136
Accruing loans 90 days or more past due:		
Total	\$ —	\$ —
Total nonperforming loans	\$ 23,242	\$ 20,416
Other property owned	816	1,170
Total nonperforming assets	\$ 24,058	\$ 21,586
Nonaccrual loans as a percentage of total loans	0.78%	0.80%
Nonperforming assets as a percentage of total loans and other property owned	1.21%	1.12%
Nonperforming assets as a percentage of capital	5.56%	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.

	June 30, 2021	December 31, 2020
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 5,775	\$ 6,510
Past due	9,721	8,770
Total	\$ 15,496	\$ 15,280
Impaired accrual loans:		
Restructured	\$ 7,746	\$ 5,136
90 days or more past due	—	—
Total	\$ 7,746	\$ 5,136
Total impaired loans	\$ 23,242	\$ 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.

	June 30, 2021			Three Months Ended June 30, 2021		Six Months Ended June 30, 2020	
	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
Impaired loans:							
With a related allowance for credit losses:							
Real estate mortgage	\$ 163	\$ 172	\$ 6	\$ 157	\$ 3	\$ 155	\$ 7
Production and intermediate-term	442	440	134	425	7	421	19
Processing and marketing	—	—	—	—	—	—	—
Farm-related business	316	325	154	303	5	301	13
Rural residential real estate	—	—	—	—	—	—	—
Total	\$ 921	\$ 937	\$ 294	\$ 885	\$ 15	\$ 877	\$ 39
With no related allowance for credit losses:							
Real estate mortgage	\$ 14,391	\$ 16,566	\$ —	\$ 13,840	\$ 239	\$ 13,701	\$ 603
Production and intermediate-term	5,889	7,713	—	5,664	98	5,607	247
Processing and marketing	881	904	—	847	15	838	37
Farm-related business	806	1,117	—	776	14	768	34
Rural residential real estate	354	428	—	341	6	337	15
Total	\$ 22,321	\$ 26,728	\$ —	\$ 21,468	\$ 372	\$ 21,251	\$ 936
Total impaired loans:							
Real estate mortgage	\$ 14,554	\$ 16,738	\$ 6	\$ 13,997	\$ 242	\$ 13,856	\$ 610
Production and intermediate-term	6,331	8,153	134	6,089	105	6,028	266
Processing and marketing	881	904	—	847	15	838	37
Farm-related business	1,122	1,442	154	1,079	19	1,069	47
Rural residential real estate	354	428	—	341	6	337	15
Total	\$ 23,242	\$ 27,665	\$ 294	\$ 22,353	\$ 387	\$ 22,128	\$ 975

	December 31, 2020			Year Ended December 31, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
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 March 31, 2021	\$ 13,270	\$ 2,769	\$ 497	\$ 812	\$ 2	\$ 17,350
Charge-offs	(41)	(165)	—	—	—	(206)
Recoveries	1	15	—	5	—	21
Provision for loan losses	(181)	327	48	(4)	(1)	189
Balance at June 30, 2021	\$ 13,049	\$ 2,946	\$ 545	\$ 813	\$ 1	\$ 17,354
Balance at December 31, 2020	\$ 13,021	\$ 3,017	\$ 538	\$ 779	\$ 2	\$ 17,357
Charge-offs	(41)	(206)	(72)	(7)	—	(326)
Recoveries	81	107	1	7	—	196
Provision for loan losses	(12)	28	78	34	(1)	127
Balance at June 30, 2021	\$ 13,049	\$ 2,946	\$ 545	\$ 813	\$ 1	\$ 17,354
Balance at March 31, 2020	\$ 12,100	\$ 3,304	\$ 565	\$ 623	\$ 4	\$ 16,596
Charge-offs	—	(550)	(104)	(5)	—	(659)
Recoveries	47	82	—	—	—	129
Provision for loan losses	(71)	355	161	8	—	453
Balance at June 30, 2020	\$ 12,076	\$ 3,191	\$ 622	\$ 626	\$ 4	\$ 16,519
Balance at December 31, 2019	\$ 11,485	\$ 3,868	\$ 400	\$ 604	\$ 4	\$ 16,361
Charge-offs	—	(720)	(105)	(5)	—	(830)
Recoveries	175	100	—	4	—	279
Provision for loan losses	416	(57)	327	23	—	709
Balance at June 30, 2020	\$ 12,076	\$ 3,191	\$ 622	\$ 626	\$ 4	\$ 16,519
Allowance on loans evaluated for impairment:						
Individually	\$ 6	\$ 134	\$ 154	\$ —	\$ —	\$ 294
Collectively	13,043	2,812	391	813	1	17,060
Balance at June 30, 2021	\$ 13,049	\$ 2,946	\$ 545	\$ 813	\$ 1	\$ 17,354
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	\$ 14,554	\$ 6,331	\$ 2,003	\$ 354	\$ —	\$ 23,242
Collectively	1,519,213	324,255	44,052	95,217	175	1,982,912
Balance at June 30, 2021	\$ 1,533,767	\$ 330,586	\$ 46,055	\$ 95,571	\$ 175	\$ 2,006,154
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.

Outstanding Recorded Investment	Three Months Ended June 30, 2021					Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
Pre-modification:						
Real estate mortgage	\$ —	\$ 1,130	\$ —	\$ 1,130		
Total	\$ —	\$ 1,130	\$ —	\$ 1,130		
Post-modification:						
Real estate mortgage	\$ —	\$ 1,130	\$ —	\$ 1,130	\$ —	
Total	\$ —	\$ 1,130	\$ —	\$ 1,130	\$ —	

Six Months Ended June 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 347	\$ 3,270	\$ –	\$ 3,617	
Production and intermediate-term	–	281	–	281	
Total	\$ 347	\$ 3,551	\$ –	\$ 3,898	
Post-modification:					
Real estate mortgage	\$ 352	\$ 3,270	\$ –	\$ 3,622	\$ –
Production and intermediate-term	–	281	–	281	–
Total	\$ 352	\$ 3,551	\$ –	\$ 3,903	\$ –

Three Months Ended June 30, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ –	\$ 1,504	\$ –	\$ 1,504	
Production and intermediate-term	–	186	–	186	
Total	\$ –	\$ 1,690	\$ –	\$ 1,690	
Post-modification:					
Real estate mortgage	\$ –	\$ 1,535	\$ –	\$ 1,535	\$ –
Production and intermediate-term	–	186	–	186	–
Total	\$ –	\$ 1,721	\$ –	\$ 1,721	\$ –

Six Months Ended June 30, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 289	\$ 1,504	\$ –	\$ 1,793	
Production and intermediate-term	–	616	–	616	
Total	\$ 289	\$ 2,120	\$ –	\$ 2,409	
Post-modification:					
Real estate mortgage	\$ 290	\$ 1,535	\$ –	\$ 1,825	\$ –
Production and intermediate-term	–	653	–	653	(27)
Total	\$ 290	\$ 2,188	\$ –	\$ 2,478	\$ (27)

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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Real estate mortgage	\$ 297	\$ 92	\$ 326	\$ 385
Production and intermediate-term	–	13	–	178
Rural residential real estate	–	110	–	110
Total	\$ 297	\$ 215	\$ 326	\$ 673

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	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Real estate mortgage	\$ 10,592	\$ 7,939	\$ 4,141	\$ 3,797
Production and intermediate-term	1,794	1,753	639	900
Farm-related business	3	3	3	3
Rural residential real estate	140	141	–	–
Total loans	\$ 12,529	\$ 9,836	\$ 4,783	\$ 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 June 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:

June 30, 2021					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 3,854	\$ 380	\$ —	\$ 4,234	6.74%

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:

June 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	3,854	4,234	6.74
Total	\$ 3,854	\$ 4,234	6.74%

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 June 30, 2021 net of any reciprocal investment. As of that date, the Bank's assets totaled \$37.0 billion and shareholders' equity totaled \$2.7 billion. The Bank's earnings were \$240 million for the first six months of 2021. In addition, the Association held investments of \$3,910 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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Employee Benefit Plans:				
Balance at beginning of period	\$ (687)	\$ (528)	\$ (693)	\$ (532)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	6	3	12	7
Net current period other comprehensive income	6	3	12	7
Balance at end of period	\$ (681)	\$ (525)	\$ (681)	\$ (525)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				Income Statement Line Item
	Three Months Ended June 30,		Six Months Ended June 30,		
	2021	2020	2021	2020	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (6)	\$ (3)	\$ (12)	\$ (7)	See Note 7.
Net amounts reclassified	\$ (6)	\$ (3)	\$ (12)	\$ (7)	

(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.

		June 30, 2021				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Assets held in trust funds	\$	2,032	\$ 2,032	\$ –	\$ –	\$ 2,032
Recurring Assets	\$	2,032	\$ 2,032	\$ –	\$ –	\$ 2,032
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	627	\$ –	\$ –	\$ 627	\$ 627
Other property owned		816	–	–	966	966
Nonrecurring Assets	\$	1,443	\$ –	\$ –	\$ 1,593	\$ 1,593
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	199	\$ 199	\$ –	\$ –	\$ 199
Investment securities, held-to-maturity		3,854	–	–	4,234	4,234
Loans		1,974,268	–	–	1,999,413	1,999,413
Other Financial Assets	\$	1,978,321	\$ 199	\$ –	\$ 2,003,647	\$ 2,003,846
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	1,583,894	\$ –	\$ –	\$ 1,591,359	\$ 1,591,359
Other Financial Liabilities	\$	1,583,894	\$ –	\$ –	\$ 1,591,359	\$ 1,591,359

		December 31, 2020				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Assets held in trust funds	\$	1,909	\$ 1,909	\$ –	\$ –	\$ 1,909
Recurring Assets	\$	1,909	\$ 1,909	\$ –	\$ –	\$ 1,909
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	975	\$ –	\$ –	\$ 975	\$ 975
Other property owned		1,170	–	–	1,369	1,369
Nonrecurring Assets	\$	2,145	\$ –	\$ –	\$ 2,344	\$ 2,344
<u>Other Financial Instruments</u>						
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	\$ 1,593	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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Pension	\$ 1,238	\$ 1,057	\$ 2,488	\$ 2,081
401(k)	346	322	760	672
Other postretirement benefits	217	223	444	450
Total	\$ 1,801	\$ 1,602	\$ 3,692	\$ 3,203

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 there were none requiring disclosure through August 6, 2021, which was the date the financial statements were issued.