AG TEXAS FARM CREDIT SERVICES

Quarterly Report

The Third Quarter Ended
September 30, 2021

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Report of Management

The consolidated financial statements of *AgTexas Farm Credit Services* ("**Association**") are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements and there are no significant changes in the Association's internal controls or in other factors that could significantly affects such controls during the quarter.

The undersigned certify that this quarterly report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his knowledge and belief.

Tim McDonald, Chief Executive Officer
October 27, 2021

Dennis Anthony, Chairman, Board of Directors
October 27, 2021

Jeff Fairchild, Chief Financial Officer
October 27, 2021

The third quarter consolidated financial statements of AgTexas Farm Credit Services, including its wholly-owned subsidiaries AgTexas, PCA and AgTexas, FLCA (collectively referred to herein as the "**Association**"), is unaudited, but contains all adjustments necessary for a fair presentation of the interim financial condition and results of operations. The statements are prepared in conformity with generally accepted accounting principles and prevailing practices within the banking industry. In preparing these consolidated statements and meeting its responsibility for reliable financial information, management depends upon the Association's accounting and internal control systems which have been designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded.

The Association is a member of the *Farm Credit System* ("**System**"), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the *Farm Credit Administration* ("**FCA**") promulgated thereunder.

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of the Association for the three and nine months ended September 30, 2021, and should be read in conjunction with the accompanying *consolidated financial statements* ("**CFS**") and the *Association's 2020 Annual Report to Stockholders* ("**2020 Annual Report**"). Management prepared the accompanying CFS under the oversight of the Association's Audit Committee.

Significant Events.

The Association distributed patronage of approximately $16.5 million in cash and an additional $3.2 million in allocated equities in the first quarter of 2021. This represented the 2020 patronage declared by the Association.

Two proposals were considered by Association stockholders at a Special Stockholder Meeting held Friday September 3, 2021. These two proposals considered amendments to Article 7 of the Association's bylaws concerning preferred stock as well as authorization to increase the amount of potential preferred stock outstanding. Both proposals passed with substantial majorities of stockholders voting in favor. These efforts enhance the Association's capital management tools used to capitalize the future growth of the Association.

In September 2021, the Association received clearance from FCA and the board approved the issuance of 80,000 shares of a series of preferred stock, par value of $1,000 per share. The stock was issued October 6, 2021. The stock is designated as *Fixed Rate Reset Perpetual Non-Cumulative Preferred Stock, Series B* ("**Series B Preferred Stock**"). The Series B Preferred stock has a fixed rate dividend of 5.75 percent for 5 years, payable quarterly. After 5 years, the dividend rate resets to the Five-Year Treasury Rate plus 4.74 percent. On or after 5 years, the Association may, at its option, redeem all or part of the Series B Preferred Stock. The Series B Preferred Stock is non-voting, except: (*i*) to materially change the Association's Charter or Bylaws that would materially adversely affect the holder of Series B Preferred Stock, (*ii*) to create, issue or authorize any class of stock ranking senior to the Series B Preferred Stock as to dividends or liquidation, (*iii*) certain other limited circumstances detailed in the offering circular.

Loan Portfolio.

Total loans outstanding at September 30, 2021, including nonaccrual loans, were $2,530,103,837 compared to $2,183,827,278 at December 31, 2020, reflecting an increase of 15.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at September 30, 2021, compared to 0.4 percent at December 31, 2020.

The Association recorded $512,089 in recoveries and $1,554 in charge-offs for the nine months ended September 30, 2021, and $978,517 in recoveries and $777,726 in charge-offs for the same period in 2020. The Association's allowance for credit losses, which consists of the allowance for loan losses and the reserve for unfunded credit commitments, was 0.29 percent and 0.30 percent of total loans outstanding as of September 30, 2021, and December 31, 2020, respectively.

The financial performance of the Association may be significantly impacted by the quality of loans within the loan portfolio. Internal policies and procedures, as well as third party credit reviews and examinations help to ensure asset quality is properly reflected. Additional detail on credit quality is illustrated in the following table.

	September 30, 2021	September 30, 2020	December 31, 2020
Acceptable	96.0%	94.8%	95.8%
OAEM	2.7%	2.6%	1.7%
Substandard/doubtful	1.3%	2.6%	2.5%
	100.0%	**100.0%**	**100.0%**

Changes in the Association's loan portfolio from December 31, 2020 to September 30, 2021 follow:

	September 30, 2021		December 31, 2020	
Loan Type	Amount	%	Amount	%
Real estate mortgage	$ 1,365,590,753	54.0%	$ 1,173,139,059	53.7%
Production and intermediate term	851,451,276	33.7%	716,316,540	32.8%
Agribusiness:				
Loans to cooperatives	9,975,139	0.4%	8,629,186	0.4%
Processing and marketing	164,418,079	6.5%	143,266,511	6.5%
Farm-related business	38,195,703	1.5%	31,430,517	1.4%
Communication	16,167,479	0.6%	20,959,252	1.0%
Energy	6,146,997	0.2%	7,729,018	0.4%
Water and waste water	3,875,442	0.2%	4,167,976	0.2%
Rural residential real estate	7,861,887	0.3%	8,495,248	0.4%
International	10,003,343	0.4%	-	0.0%
Lease receivables	10,208,355	0.4%	4,993,460	0.2%
Mission-related investments	46,209,384	1.8%	64,700,511	3.0%
Total	$ 2,530,103,837	100.0%	$ 2,183,827,278	100.0%

The Association's portfolio includes significant mission-related investments authorized under the FCA approved *Rural America Bond Pilot Program* ("**RAB**"). The RAB program was designed to meet the growing and changing needs of agricultural enterprises, agribusinesses, and various infrastructure needs in rural communities through investment in these areas. The RAB pilot program ended as of December 31, 2014. FCA approved new investment regulations that became effective January 1, 2019. Effective February 25, 2019, the Association began purchasing USDA 100% unconditional guaranteed loans that are considered mission-related investments included in the above table.

Effective January 1, 2019, new FCA investment regulations provided authorization for the Association to invest in *Small Business Administration* ("**SBA**") pool securities. As a part of the conditions of the authorization, the investments are required to be 100% unconditionally guaranteed by the federal government or its agencies. For more information see Note 2 in the "Notes to Unaudited Consolidated Financial Statements".

Risk Exposure. High-risk assets include impaired loans and other property owned. Impaired loans are comprised of nonaccrual, past due ≥ 90 days and still accruing interest, and formally restructured loans. The following table illustrates the Association's components and trends of high-risk assets:

	September 30, 2021		December 31, 2020	
	Amount	%	Amount	%
Nonaccrual	$ 5,028,412	39.4%	$ 9,397,940	43.4%
90 days past due and still accruing interest	1,517,340	11.9%	461,912	2.1%
Formally restructured	6,206,817	48.7%	11,795,429	54.5%
Other property owned, net	-	0.0%	-	0.0%
Total	$ 12,752,569	100.0%	$ 21,655,281	100.0%

Results of Operations. Changes in the Association's results of operations for the three and nine months ended September 30, 2021 and 2020 follow:

	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Interest income	$ 23,398,476	$ 21,311,885	$ 66,630,509	$ 66,285,382
Interest expense	(8,694,037)	(8,859,112)	(24,750,525)	(30,636,148)
(Provision for) reversal of loan losses	(913,213)	(810,044)	(340,193)	(1,232,301)
Net interest margin	13,791,226	11,642,729	41,539,791	34,416,933
Noninterest income	7,362,300	7,077,620	20,462,666	17,408,233
Noninterest expense	(9,063,355)	(7,155,679)	(26,645,308)	(22,544,318)
Net income	$ 12,090,171	$ 11,564,670	$ 35,357,149	$ 29,280,848

Net interest margin (interest income less interest expense) is the principal source of earnings and results from relative volumes of interest-earning assets and interest-bearing liabilities, yields on interest-earning assets, and rates on interest-bearing liabilities. The increase in interest income is primarily due to the growth in volume within the quarter but offset slightly year to date by lower interest rates. The changes in "(Provision for) reversal of loan losses" are due to changes in recoveries and charge-offs along with an increase in allowance for loan loss. Noninterest income increases are due to increases in patronage income and higher than budgeted fee income. Noninterest expense increase is due to increase in salaries and FCS Insurance Premiums.

The effects of changes in average volumes, yields, and rates on interest margin follow:

	For the nine months ended September 30, 2021		For the nine months ended September 30, 2020	
	Average Balance	Interest	Average Balance	Interest
Total loans and investments	2,373,787,492	66,630,509	2,103,416,256	66,285,382
Interest-bearing liabilities	2,128,153,186	24,750,525	1,883,379,748	30,636,148
Impact of capital	$ 245,634,306		$ 220,036,508	
Net interest income		$ 41,879,984		$ 35,649,234

	2021 Average Yield	2020 Average Yield
Yield on loans and investments	3.75%	4.20%
Cost of interest-bearing	1.55%	2.17%
Interest rate spread	2.20%	2.03%
Interest rate margin	2.36%	2.26%

	Nine months ended September 30:		
	2021 vs. 2020		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income	$ 8,493,361	$ (8,148,234)	$ 345,127
Interest expense	3,972,773	(9,858,396)	(5,885,623)
Net interest income	$ 4,520,587	$ 1,710,163	$ 6,230,750

The Association's return on average assets was 1.83% and 2.04% for the quarters ended September 30, 2021 and 2020, respectively, and 1.92% and 1.78% for the nine months ended September 30, 2021 and 2020, respectively. The decrease in return on average assets for the three months ended September 30, 2021 is due to lower loan service fee income than the prior year. The increase for the nine months ended September 30, 2021 is due to increased net income, which is explained above. The Association's return on average equity was 14.70% and 15.42% for the quarters ended September 30, 2021 and 2020, respectively, and 15.03% and 13.54% for the nine months ended September 30, 2021 and 2020, respectively. The changes in return on average equity for the period mirror the return on average assets above.

Liquidity and Funding Sources. *Interest rate risk* ("**IRR**") inherent in the loan portfolio is substantially mitigated through the funding relationship with the *Farm Credit Bank of Texas* ("**FCBT**" or "**bank**"). FCBT manages IRR through direct loan pricing and asset/liability management. The Association's primary source of liquidity and funding is a direct note payable to FCBT. The following schedule summarizes the Association's borrowings:

	September 30, 2021	December 31, 2020
Note payable to the Bank	$ 2,359,120,099	$ 2,010,366,007
Accrued interest on note payable	2,888,742	2,790,897
Total	$ 2,362,008,841	$ 2,013,156,904

The Association operates under a *general financing agreement* ("**GFA**") with the bank. The current GFA is effective through September 30, 2023. The outstanding balance of $2,359,120,099 as of September 30, 2021, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.49 percent at September 30, 2021. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the bank and is governed by the GFA. The increase in note payable to the bank since December 31, 2020, is due to the Association's increase in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $250,775,613 at September 30, 2021. The maximum amount the Association may borrow from the bank as of September 30, 2021, was $2,616,485,175 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, unless sooner terminated by the bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

Capital Resources. The Association's members' equity was $332,922,906 and $298,034,229 at September 30, 2021 and December 31, 2020, respectively, a $34,888,677 increase, which approximates current earnings. The Association's debt as a percentage of members' equity was 7.18:1 as of September 30, 2021, compared to 6.93:1 as of December 31, 2020. FCA regulations require associations to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and *unallocated retained earnings and equivalents* ("**UREE**") ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. See note 4 in the *Notes to Unaudited Consolidated Financial Statements.* As of September 30, 2021, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements. See Note 1 in CFS.

Relationship With FCBT. The Association has a statutory obligation to borrow only from FCBT, which is discussed in note 9, *Note Payable to FCBT*, in the Association's consolidated financial statements in the 2020 Annual Report.

FCBT's ability to access Association capital is discussed in note 2, *Summary of Significant Accounting Policies*, in the Association's consolidated financial statements in the 2020 Annual Report, within the *Capital Stock Investment in the FCBT* section.

FCBT's role to help mitigate Association exposure to IRR is described in the *Liquidity and Funding Sources* section of *Management's Discussion and Analysis of Financial Condition and Results of Operations* and note 9, *Note Payable to FCBT*, in the Association's consolidated financial statements in the 2020 Annual Report.

FCBT provides computer systems to support the critical operations of all *10th Farm Credit District* ("**District**") associations. In addition, each association has operating systems and facility-based systems that are not supported by FCBT. As disclosed in note 13, *Related Party Transactions*, in the Association's consolidated financial statements in the 2020 Annual Report, FCBT provides many services to the Association, which include administrative, marketing, accounting services and information systems.

The Association's financial condition may be impacted by factors that affect FCBT. The financial condition and results of operations of FCBT may materially affect Association stockholders' investment in the Association.

Annual and Quarterly Stockholder Report Availability. FCBT's annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for FCBT are also available on its website at *www.farmcreditbank.com.*

Annual and quarterly stockholder reports for the Association are available free of charge on the Association's website www.agtexas.com or by *i*) writing to AgTexas Farm Credit Services, 5004 N. Loop 289, Lubbock, Texas 79416, *ii*) calling (806) 687-4068, or *iii*) e-mailing jeff.fairchild@agtexas.com.

Consolidated Balance Sheets

	September 30, 2021 Unaudited	December 31, 2020 Audited
Assets		
Cash	$ 8,614	$ 8,594
Investments	93,110,367	80,838,236
Loans	2,530,103,837	2,183,827,278
Less: allowance for loan losses	7,457,932	6,504,599
Net loans	2,522,645,905	2,177,322,679
Accrued interest receivable	23,801,063	22,704,499
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	38,532,785	38,636,905
Other	19,040,570	18,008,816
Premises and equipment	25,165,802	24,903,330
Other assets	2,023,402	1,179,694
Total assets	$ 2,724,328,508	$ 2,363,602,753
Liabilities		
Note payable to the Farm Credit Bank of Texas	$ 2,359,120,099	$ 2,010,366,007
Advance conditional payments	11,062,810	17,754,206
Accrued interest payable	2,888,742	2,790,897
Accrued postretirement benefit liability	7,843,106	7,768,656
Patronage distributions payable	130	16,490,756
Other liabilities	10,490,715	10,398,002
Total liabilities	2,391,405,602	2,065,568,524
Members' Equity		
Capital stock and participation certificates	4,452,480	4,257,615
Preferred stock	20,000,000	20,000,000
Allocated retained earnings	22,229,695	22,230,993
Unallocated retained earnings	211,007,314	176,650,165
Additional paid-in capital	75,310,003	75,310,003
Accumulated other comprehensive income	(76,586)	(414,547)
Total members' equity	332,922,906	298,034,229
Total liabilities and members' equity	$ 2,724,328,508	$ 2,363,602,753

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

AG TEXAS FARM CREDIT SERVICES

Unaudited Consolidated Statements of Comprehensive Income

	For the three months ended		For the nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Interest income				
Loans	$ 23,248,330	$ 21,111,580	$ 66,032,466	$ 65,509,549
Investments	150,146	200,305	598,043	775,833
Total interest income	23,398,476	21,311,885	66,630,509	66,285,382
Interest expense				
Note payable to the Farm Credit Bank of Texas	8,693,156	8,857,690	24,747,740	30,617,923
Advance conditional payments	881	1,422	2,785	18,225
Total interest expense	8,694,037	8,859,112	24,750,525	30,636,148
Net interest income	14,704,439	12,452,773	41,879,984	35,649,234
Provision for (reversal of) loan losses	913,213	810,044	340,193	1,232,301
Net interest income after Provision for (reversal of) losses	13,791,226	11,642,729	41,539,791	34,416,933
Noninterest income				
Farm Credit Bank of Texas patronage income	5,690,532	4,477,472	15,868,200	12,442,678
Loan fees	(63,902)	253,404	463,366	678,341
Fees for financially related services	1,450,617	1,904,458	2,633,494	2,520,862
Other	285,053	442,286	1,497,606	1,766,352
Total noninterest income	7,362,300	7,077,620	20,462,666	17,408,233
Noninterest expenses				
Salaries and employee benefits	6,153,549	4,848,900	17,865,144	15,296,728
Directors' expense	68,962	98,888	198,437	253,388
Purchased services	341,432	270,491	1,344,629	1,223,400
Travel	426,563	250,943	1,007,810	754,163
Occupancy and equipment	387,271	359,109	1,253,573	1,230,872
Communication	80,714	79,985	259,841	261,019
Advertising	190,932	172,506	478,328	430,479
Public and member relations	211,794	164,137	681,422	553,649
Federally regulated examination fees	161,533	149,316	432,635	409,451
FCSIC insurance premiums	713,010	410,992	1,990,238	974,317
Other components of net periodic postretirement benefit cost	46,565	55,283	139,695	165,848
Other noninterest expense	281,030	295,129	993,556	991,004
Total noninterest expenses	9,063,355	7,155,679	26,645,308	22,544,318
Net income	12,090,171	11,564,670	35,357,149	29,280,848
Other comprehensive income (loss):				
Change in postretirement benefit plans	(7,020)	(8,658)	(21,060)	(25,974)
Change in fair value of available for sale investments	5,672	190,493	359,021	138,024
Total other comprehensive income (loss)	(1,348)	181,835	337,961	112,050
Comprehensive income	$ 12,088,823	$ 11,746,505	$ 35,695,110	$ 29,392,898

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

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Unaudited Consolidated Statements of Changes in Members' Equity

	Capital Stock/ Participation Certificates	Preferred Stock	Retained Earnings Allocated	Retained Earnings Unallocated	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2019	$ 4,160,515	$ 20,000,000	$ 21,422,837	$ 155,179,391	$ 75,310,003	$ (502,425)	$ 275,570,321
Comprehensive income	-	-	-	29,280,848	-	112,050	29,392,898
Capital stock/participation certificates issued	665,760	-	-	-	-	-	665,760
Capital stock/participation certificates retired	(594,730)	-	-	-	-	-	(594,730)
Preferred stock dividends:							
Paid	-	-	-	(1,000,000)	-	-	(1,000,000)
Patronage dividends:							
Paid or accrued	-	-	1	-	-	-	1
Balance at September 30, 2020	$ 4,231,545	$ 20,000,000	$ 21,422,838	$ 183,460,239	$ 75,310,003	$ (390,375)	$ 304,034,250
Balance at December 31, 2020	$ 4,257,615	$ 20,000,000	$ 22,230,993	$ 176,650,165	$ 75,310,003	$ (414,547)	$ 298,034,229
Comprehensive income	-	-	-	35,357,149	-	337,961	35,695,110
Capital stock/participation certificates issued	814,360	-	-	-	-	-	814,360
Capital stock/participation certificates retired	(619,495)	-	-	-	-	-	(619,495)
Preferred stock dividends:							
Paid	-	-	-	(1,000,000)	-	-	(1,000,000)
Patronage dividends:							
Paid or accrued	-	-	(1,298)	-	-	-	(1,298)
Balance at September 30, 2021	$ 4,452,480	$ 20,000,000	$ 22,229,695	$ 211,007,314	$ 75,310,003	$ (76,586)	$ 332,922,906

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

Note 1: Organization, Operations and Significant Accounting Policies

AgTexas Farm Credit Services and its wholly-owned subsidiaries, *AgTexas, PCA* ("**PCA**") and *AgTexas, FLCA* ("**FLCA**"), are collectively referred to herein as the "**Association**." The Association provides financing and related services through FLCA and PCA. FLCA makes secured long-term agricultural real estate and rural home mortgage loans. PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

These notes and the encompassing consolidated financial statements for the Association (collectively referred to herein as "**CFS**"), include the accounts of PCA and FLCA. All significant intercompany balances and transactions are eliminated in consolidation. In management's opinion, the CFS reflect all adjustments necessary to fairly state results for the interim periods presented, which are of a normal recurring nature.

The accompanying unaudited financial statements have been prepared in accordance with *accounting principles generally accepted in the U.S.* ("**GAAP**") for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2020, as contained in the 2020 Annual Report to Stockholders.

In the opinion of management, the CFS contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with GAAP, except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by *Farm Credit Administration* ("**FCA**"), Associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2020 as contained in the 2020 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2021. Descriptions of the significant accounting policies are included in the 2020 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Significant Recent Accounting Pronouncements. In January 2021, the Financial Accounting Standards Board ("**FASB**") issued an update whereby certain derivative instruments may be modified to change the rate used for margining, discounting, or contract price alignment. An entity may elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments do not apply to contract modifications made or new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022. The Association adopted the guidance in the first quarter of 2021 and the impact was not material to the Association's financial condition or results of operations.

In March 2020, the FASB issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association applied the optional accounting expedients available under the guidance to derivative contract modifications related to the LIBOR transition in the fourth quarter of 2020. The impact of adoption was not material to the Association's financial condition or its results of operations. In addition, the Association applied the optional expedients as it relates to loans in the first quarter of 2021. The impact of adoption was not material to the Association's financial condition or its results of operations.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2021, are not necessarily indicative of the results to be expected for the year ended December 31, 2021.

Note 2: Investment Securities

Held to Maturity ("HTM")

Federal Agricultural Mortgage Corporation ("**Farmer Mac**") guaranteed *agricultural mortgage-backed securities* ("**AMBS**") comprise the Association's HTM investment portfolio, and the Association services the underlying loans. Additional information follows:

	AMBS				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
September 30, 2021	$ 972,011	$ 20,415	-	$ 992,426	4.89%
December 31, 2020	1,117,246	41,195	-	1,158,441	5.73%

The Association has not experienced impairments of these securities. Farmer Mac guarantees the underlying mortgages, and the Association has the ability and intent to hold these securities to maturity or pay-off and it is unlikely the Association would be required to sell these securities. These AMBS have contractual weighted average maturities of 2.81 years as of September 30, 2021, however, expected maturities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Available for sale ("**AFS**")

The Association's AFS investment securities consists entirely of *Small Business Administration* ("**SBA**") pool securities. A summary of the amortized cost and fair value of AFS investment securities is as follows:

	SBA pool securities				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
September 30, 2021	$91,452,807	$ 685,549	$ -	$ 92,138,356	3.18%
December 31, 2020	79,394,462	326,528	-	79,720,990	3.21%

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of AFS investments securities at September 30, 2021:

	SBA pool securities				
	Due in 1 Year or Less	Due After 1 Year Through 5 Years	Due After 5 Years Through 10 Years	Due After 10 Years	Total
Fair value	$ -	$ -	$ 36,942,952	$ 55,195,404	$ 92,138,356
Amortized cost	-	-	36,658,028	54,794,779	91,452,807
Weighted average yield	0.00%	0.00%	3.71%	2.82%	3.18%

Note 3: Loans and *Allowance for Loan Losses* ("ALL")

Loans. Loan *carrying amounts* (outstanding principal adjusted as applicable for capitalized accrued interest, direct partial charge-offs, deferred fees or costs on originated loans, and unamortized purchase premiums and discounts; excludes uncapitalized accrued interest) by portfolio *segment* follows:

	September 30, 2021		December 31, 2020	
Loan Type	Amount	%	Amount	%
Real estate mortgage	$ 1,365,590,753	54.0%	$ 1,173,139,059	53.7%
Production and intermediate term	851,451,276	33.7%	716,316,540	32.8%
Agribusiness:				
Loans to cooperatives	9,975,139	0.4%	8,629,186	0.4%
Processing and marketing	164,418,079	6.5%	143,266,511	6.5%
Farm-related business	38,195,703	1.5%	31,430,517	1.4%
Communication	16,167,479	0.6%	20,959,252	1.0%
Energy	6,146,997	0.2%	7,729,018	0.4%
Water and waste water	3,875,442	0.2%	4,167,976	0.2%
Rural residential real estate	7,861,887	0.3%	8,495,248	0.4%
International	10,003,343	0.4%	-	0.0%
Lease receivables	10,208,355	0.4%	4,993,460	0.2%
Mission-related investments	46,209,384	1.8%	64,700,511	3.0%
Total	$ 2,530,103,837	100.0%	$ 2,183,827,278	100.0%

Mission-related investment and real estate mortgage loans purchased with 100% U.S. government agency or government sponsored enterprise guarantees present essentially no credit risk other than purchase premiums, which are forfeited when borrowers prepay or refinance their loans before the premiums are fully amortized. Management anticipates and considers potential prepayments to estimate an appropriate amortization period. Net purchased premiums included in the mission-related investment and real estate mortgage loan balances above as of September 30, 2021 and December 31, 2020, follow:

	September 30, 2021	December 31, 2020
Real estate mortgage	$ 3,379,427	$ 4,595,659
Mission-related investments	848,414	1,259,670
Total premium	$ 4,227,841	$ 5,855,329

The Association may purchase or sell participations in loans to diversify risk, manage loan volume, and comply with FCA regulations. Participation carrying amount details as of September 30, 2021 follow:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 111,521,453	$ 337,876,929	$ 189,048,745	$ -	$ 300,570,198	$ 337,876,929
Production and intermediate term	68,811,768	467,374,403	-	-	68,811,768	467,374,403
Agribusiness	122,802,251	45,831,815	-	-	122,802,251	45,831,815
Communication	16,167,479	-	-	-	16,167,479	-
Energy	6,146,997	-	-	-	6,146,997	-
Water and waste water	3,875,442	-	-	-	3,875,442	-
International	10,003,343	-	-	-	10,003,343	-
Lease receivables	10,208,355	-	-	-	10,208,355	-
Total	$ 349,537,088	$ 851,083,147	$ 189,048,745	$ -	$ 538,585,833	$ 851,083,147

The Association is authorized under the Farm Credit Act to accept *advance conditional payments* (“**ACPs**”) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $26,732,805 and $45,851,481 at September 30, 2021 and December 31, 2020, respectively.

Credit Quality. Loans are the Association’s primary asset. Collectability of these assets is critical to the Association’s financial position and results of operations. Collectability is primarily a function of credit quality.

Loans that have not performed in accordance with terms demonstrate heightened credit risk, and the level and trends in non-performing loans is a strong indicator of credit quality. Non-performing loans and *other property owned* (“**OPO**”) comprise non-performing assets.

The recorded investment in a loan, as defined by GAAP, includes the outstanding principal adjusted, as applicable, for accrued interest, direct partial charge-offs, deferred fees or costs on originated loans, and unamortized purchase premiums and discounts; the recorded investment in a loan does not include an allocation of the ALL or any specific valuation adjustments. The recorded investment in non-performing asset balances by loan portfolio segment and OPO follow:

	September 30, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	$ 3,999,584	$ 6,483,899
Production and intermediate term	877,086	1,847,490
Rural residential real estate	151,742	166,145
Mission-related investments	-	900,406
Total nonaccrual loans	5,028,412	9,397,940
Accruing restructured loans:		
Real estate mortgage	6,103,254	11,022,057
Production and intermediate term	103,563	773,372
Total accruing restructured loans	6,206,817	11,795,429
Accruing loans 90 days or more past due:		
Real estate mortgage	1,517,164	461,912
Production and intermediate term	176	-
Total accruing loans 90 days or more past due	1,517,340	461,912
Total non-performing loans	12,752,569	21,655,281
Other property owned	-	-
Total non-performing assets	$ 12,752,569	$ 21,655,281

Age analysis of the recorded investment (including accrued interest) in past due loans by loan segment follows:

September 30, 2021	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 days and Accruing
Real estate mortgage	$ 7,404,339	$ 2,606,281	$ 10,010,620	$ 1,370,047,641	$ 1,380,058,261	$ 1,517,164
Production and intermediate-term	2,523,486	181	2,523,667	856,530,766	859,054,433	176
Loans to cooperatives	-	-	-	9,980,823	9,980,823	-
Processing and marketing	-	-	-	165,011,174	165,011,174	-
Farm-related business	-	-	-	38,349,368	38,349,368	-
Communication	-	-	-	16,168,329	16,168,329	-
Energy	-	-	-	6,174,985	6,174,985	-
Water and waste water	-	-	-	3,876,128	3,876,128	-
Rural residential real estate	-	-	-	7,895,209	7,895,209	-
International	-	-	-	10,026,842	10,026,842	-
Lease receivables		-	-	10,239,266	10,239,266	-
Mission-related investments	256,861	-	256,861	46,333,075	46,589,936	
Total	$ 10,184,686	$ 2,606,462	$ 12,791,148	$ 2,540,633,606	$ 2,553,424,754	$ 1,517,340

December 31, 2020	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment >90 days and Accruing
Real estate mortgage	$ 4,171,090	$ 4,489,103	$ 8,660,193	$ 1,178,638,875	$ 1,187,299,068	$ 461,912
Production and intermediate-term	4,578,533	10	4,578,543	718,375,947	722,954,490	-
Loans to cooperatives	-	-	-	8,635,985	8,635,985	-
Processing and marketing	-	-	-	143,948,102	143,948,102	-
Farm-related business	-	-	-	31,497,365	31,497,365	-
Communication	-	-	-	20,960,364	20,960,364	-
Energy	-	-	-	7,742,965	7,742,965	-
Water and waste water	-	-	-	4,168,225	4,168,225	-
Rural residential real estate	166,145	-	166,145	8,367,733	8,533,878	-
Lease receivables	-	-	-	5,005,207	5,005,207	-
Mission-related investments	1,889,359	900,406	2,789,765	62,568,542	65,358,307	-
Total	$ 10,805,127	$ 5,389,519	$ 16,194,646	$ 2,189,909,310	$ 2,206,103,956	$ 461,912

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

Management has rated each loan in the portfolio using the System's 14-point rating system. These aggregated classifications are a significant indicator of credit quality. The classification categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned ("**OAEM**") – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table presents the Association's loan portfolio segment balances, including accrued interest thereon, as a percentage of the total category, as classified by management and aggregated under the FCA's Uniform Loan Classification System:

	September 30, 2021	December 31, 2020
Real estate mortgage		
Acceptable	96.8%	96.1%
OAEM	1.7%	1.0%
Substandard/doubtful	1.5%	2.9%
	100.0%	100.0%
Production and intermediate term		
Acceptable	95.0%	95.9%
OAEM	3.6%	1.1%
Substandard/doubtful	1.4%	3.0%
	100.0%	100.0%
Loans to cooperatives		
Acceptable	100.0%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Processing and marketing		
Acceptable	91.4%	88.6%
OAEM	7.6%	11.4%
Substandard/doubtful	1.1%	0.0%
	100.0%	100.0%
Farm-related business		
Acceptable	100.0%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Communication		
Acceptable	100.0%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Energy		
Acceptable	100.0%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Water and waste water		
Acceptable	100.0%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Rural residential real estate		
Acceptable	98.1%	98.1%
OAEM	0.0%	0.0%
Substandard/doubtful	1.9%	1.9%
	100.0%	100.0%
International		
Acceptable	100.0%	0.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	0.0%
Lease receivables		
Acceptable	100.0%	100.0%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	0.0%
	100.0%	100.0%
Mission-related investments		
Acceptable	100.0%	98.6%
OAEM	0.0%	0.0%
Substandard/doubtful	0.0%	1.4%
	100.0%	100.0%
Total Loans		
Acceptable	96.0%	95.8%
OAEM	2.7%	1.7%
Substandard/doubtful	1.3%	2.5%
	100.0%	100.0%

Based on current information and events, management has determined it is probable that scheduled payments of principal or interest on the following loans may not be collected when due according to the contractual terms of the loan agreements and has classified these loans as impaired. Once classified as impaired, management then determines the amount of impairment, if any, on each individual impaired loan; aggregated impairment on individual impaired loans is included in management's estimate of an appropriate ALL at each reporting date.

Impaired loan information, by loan portfolio segment, follows:

	September 30, 2021			December 31, 2020		
	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	$ 947,276	$ 1,195,567	$ 92,000	$ 999,152	$ 1,247,443	$ 92,000
Production and intermediate term	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-
Total	$ 947,276	$ 1,195,567	$ 92,000	$ 999,152	$ 1,247,443	$ 92,000
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$10,672,726	$11,328,016	$ -	$16,968,716	$18,432,824	$ -
Production and intermediate term	980,825	4,911,178	-	2,620,862	8,026,594	-
Farm-related business	-	1,055	-	-	-	-
Rural residential real estate	151,742	151,742	-	166,145	166,145	-
Mission-related investments	-	-	-	900,406	900,406	-
Total	$11,805,293	$16,391,990	$ -	$20,656,129	$27,525,969	$ -
Total impaired loans:						
Real estate mortgage	$11,620,002	$12,523,583	$ 92,000	$17,967,868	$19,680,267	$ 92,000
Production and intermediate term	980,825	4,911,178	-	2,620,862	8,026,594	-
Farm-related business	-	1,055	-	-	-	-
Rural residential real estate	151,742	151,742	-	166,145	166,145	-
Mission-related investments	-	-	-	900,406	900,406	-
Total	$12,752,569	$17,587,557	$ 92,000	$21,655,281	$28,773,412	$ 92,000

	For the nine months ended September 30, 2021		For the nine months ended September 30, 2020		For the Year Ended December 31, 2020	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	$ 960,481	$ -	$ 1,103,486	$ -	$ 1,062,298	$ -
Production and intermediate term	-	-	300,571	-	-	-
Farm-related business	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-
Total	$ 960,481	$ -	$ 1,404,057	$ -	$ 1,062,298	$ -
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$10,754,103	$ 291,280	$19,628,593	$ 712,657	$15,031,381	$ 747,037
Production and intermediate term	1,250,882	12,808	3,394,667	55,928	2,981,890	68,441
Farm-related business	465	9,725	29,221	-	22,968	8,026
Rural residential real estate	159,557	-	136,386	-	144,244	-
Mission-related investments	525,349	488,701	1,281,194	6,998	970,117	-
Total	$12,690,357	$ 802,515	$24,470,061	$ 775,583	$19,150,600	$ 823,504
Total impaired loans:						
Real estate mortgage	$11,714,584	$ 291,280	$20,732,079	$ 712,657	$16,093,679	$ 747,037
Production and intermediate term	1,250,882	12,808	3,695,238	55,928	2,981,890	68,441
Farm-related business	465	9,725	29,221	-	22,968	8,026
Rural residential real estate	159,557	-	136,386	-	144,244	-
Mission-related investments	525,349	488,701	1,281,194	6,998	970,117	-
Total	$13,650,838	$ 802,515	$25,874,118	$ 775,583	$20,212,898	$ 823,504

[a] Unpaid principal balance represents the recorded principal balance of the loan.

A restructuring of a debt constitutes a troubled debt restructuring 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. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

The following table provides additional information on troubled debt restructurings that occurred in the nine months ended September 30, 2020.

For the nine months ended September 30, 2020	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Production and intermediate term	$ 955,501	$ 1,003,918

The following table provides additional information on troubled debt restructurings that occurred in the nine months ended September 30, 2021.

For the nine months ended September 30, 2021	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Production and intermediate term	$ 56,048	$ 57,573

The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

As of September 30, 2021, the total recorded investment of troubled debt restructured loans was $7,139,700, of which $932,883 was classified as nonaccrual, with specific allowance for loan losses of $0. Commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $0 at September 30, 2021 and $0 at December 31, 2020.

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:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Real estate mortgage	$ 6,159,055	$ 11,022,057	$ 55,802	$ -
Production and intermediate term	980,645	1,707,564	877,081	934,193
Mission-related investments	-	900,406	-	900,406
Total	$ 7,139,700	$ 13,630,027	$ 932,883	$ 1,834,599

*represents the portion of loans modified as TDRs that are in nonaccrual status

The predominant form of concession granted for troubled debt restructuring includes modifications to extend the term and delay payments. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case management assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

There were no loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Allowance for Loan Losses ("**ALL**"). A summary of changes in ALL and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agri-business	Commun-ication	Energy, water and waste water	Rural Residential Real Estate	Inter-national	Lease Receivable	Mission-Related Investments	Total
Allowance for Loan Losses:										
Balance at December 31, 2020	$ 1,772,530	$ 3,283,744	$ 1,341,326	$ 39,017	$ 34,500	$ 12,037	$ -	$ 20,172	$ 1,273	$ 6,504,599
Charge-offs	-	-	(1,554)	-	-	-	-	-	-	(1,554)
Recoveries	190,000	321,590	499	-	-	-	-	-	-	512,089
Provision for loan losses	90,296	358,181	(115,735)	(6,747)	(7,312)	(3,003)	17,218	7,520	(225)	340,193
Other	(5,964)	58,126	59,311	(411)	(3,282)	234	(5,409)	-	-	102,605
Balance at September 30, 2021	$ 2,046,862	$ 4,021,641	$ 1,283,847	$ 31,859	$ 23,906	$ 9,268	$ 11,809	$ 27,692	$ 1,048	$ 7,457,932
Ending Balance:										
Individually evaluated for impairment	$ 92,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 92,000
Collectively evaluated for impairment	$ 1,954,862	$ 4,021,641	$ 1,283,847	$ 31,859	$ 23,906	$ 9,268	$ 11,809	$ 27,692	$ 1,048	$ 7,365,932
Acquired with deter-iorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Recorded Investment in Loans Outstanding:										
Ending Balance at September 30, 2021	$1,380,058,261	$ 859,054,433	$213,341,365	$ 16,168,329	$10,051,113	$ 7,895,209	$10,026,842	$ 10,239,266	$ 46,589,936	$ 2,553,424,754
Individually evaluated for impairment	$ 11,620,002	$ 980,825	$ -	$ -	$ -	$ 151,742	$ -	$ -	$ -	$ 12,752,569
Collectively evaluated for impairment	$1,368,438,259	$ 858,073,608	$213,341,365	$ 16,168,329	$10,051,113	$ 7,743,467	$10,026,842	$ 10,239,266	$ 46,589,936	$ 2,540,672,185
Acquired with deter-iorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

	Real Estate Mortgage	Production and Intermediate Term	Agri-business	Commun-ication	Energy, water and waste water	Rural Residential Real Estate	Inter-national	Lease Receivable	Mission-Related Investments	Total
Allowance for Loan Losses:										
Balance at December 31, 2019	$ 1,525,554	$ 3,748,407	$ 730,161	$ 38,983	$ 18,383	$ 7,676	$ -	$ 4,170	$ 954	$ 6,074,288
Charge-offs	(142,725)	(635,001)	-	-	-	-	-	-	-	(777,726)
Recoveries	-	978,517	-	-	-	-	-	-	-	978,517
Provision for loan losses	646,890	100,664	452,466	1,749	18,744	2,557	-	8,906	325	1,232,301
Other	334	(329,512)	(66,018)	77	2,808	(114)	-	-	-	(392,425)
Balance at September 30, 2020	$ 2,030,053	$ 3,863,075	$ 1,116,609	$ 40,809	$ 39,935	$ 10,119	$ -	$ 13,076	$ 1,279	$ 7,114,955
Ending Balance:										
Individually evaluated for impairment	$ 371,000	$ 285,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 656,000
Collectively evaluated for impairment	$ 1,659,053	$ 3,578,075	$ 1,116,609	$ 40,809	$ 39,935	$ 10,119	$ -	$ 13,076	$ 1,279	$ 6,458,955
Acquired with deter-iorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Recorded Investment in Loans Outstanding:										
Ending Balance at September 30, 2020	$1,144,036,239	$ 695,591,356	$190,795,470	$ 18,943,792	$12,351,781	$ 7,951,990	$ -	$ 3,347,252	$ 67,980,559	$ 2,140,998,439
Individually evaluated for impairment	$ 21,658,631	$ 3,315,700	$ 19,974	$ -	$ -	$ 169,020	$ -	$ -	$ 1,220,294	$ 26,383,619
Collectively evaluated for impairment	$1,122,377,608	$ 692,275,656	$190,775,496	$ 18,943,792	$12,351,781	$ 7,782,970	$ -	$ 3,347,252	$ 66,760,265	$ 2,114,614,820
Acquired with deter-iorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Note 4: Capital

The Association's board of directors has established a *Capital Adequacy Plan* ("**Plan**") that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

Regulatory Capitalization Requirements.

	Regulatory Minimums	Capital Conservation Buffer	Total	As of September 30, 2021	As of December 31, 2020
Risk-adjusted:					
Common equity tier 1 ratio	4.50%	2.50%	7.00%	10.82%	11.57%
Tier 1 capital ratio	6.00%	2.50%	8.50%	10.82%	11.57%
Total capital ratio	8.00%	2.50%	10.50%	12.00%	12.96%
Permanent capital ratio	7.00%	0.00%	7.00%	11.69%	12.58%
Non-risk-adjusted:					
Tier 1 leverage ratio	4.00%	1.00%	5.00%	10.02%	10.57%
UREE leverage ratio	1.50%	0.00%	1.50%	10.06%	10.64%

Following are the amounts included in the calculation of the capital ratios as of September 30, 2021:

	Regulatory Capital		Risk weighted assets/ Adjusted average total assets	
	9/30/2021	12/31/2020	9/30/2021	12/31/2020
Risk-adjusted capital ratios				
Common equity tier 1 ratio	$ 258,093,268	$ 239,563,607	$ 2,384,886,007	$ 2,069,735,381
Tier 1 capital ratio	258,093,268	239,563,607	2,384,886,007	2,069,735,381
Total capital ratio	286,086,013	268,279,789	2,384,886,007	2,069,735,381
Permanent capital ratio	278,093,268	259,563,607	2,378,352,906	2,062,561,942
Non-risk-adjusted capital ratios				
Tier 1 leverage ratio	258,093,268	239,563,607	2,576,164,800	2,265,402,932
UREE leverage ratio	259,191,090	240,930,272	2,576,164,800	2,265,402,932

Preferred stock issuance**.** In January 2017, the Association received clearance from FCA and the board approved the issuance of 20 million shares of a series of preferred stock, par value of $1.00 per share. The stock was issued March 24, 2017. The stock is designated as *Fixed-to-Floating Rate Perpetual Cumulative Preferred Stock, Series A* ("**Series A Preferred Stock**"). The Series A Preferred stock has a fixed rate dividend of 5 percent for ten years, payable semi-annually. After ten years, the dividend rate becomes a floating rate at 5.00 percent above 6-month LIBOR. On or after 5 years, the Association may, at its option, redeem all or part of the Series A Preferred Stock. The Series A Preferred Stock is non-voting, except: (*i*) to materially change the Association's Charter or Bylaws that would materially adversely affect the holder of Series A Preferred Stock, (*ii*) to create, issue or authorize any class of stock ranking senior to the Series A Preferred Stock as to dividends or liquidation.

In September 2021, the Association received clearance from FCA and the board approved the issuance of 80,000 shares of a series of preferred stock, par value of $1,000 per share. The stock was issued October 6, 2021. The stock is designated as *Fixed Rate Reset Perpetual Non-Cumulative Preferred Stock, Series B* ("**Series B Preferred Stock**"). The Series B Preferred stock has a fixed rate dividend of 5.75 percent for 5 years, payable quarterly. After 5 years, the dividend rate resets to the Five-Year Treasury Rate plus 4.74 percent. On or after 5 years, the Association may, at its option, redeem all or part of the Series B Preferred Stock. The Series B Preferred Stock is non-voting, except: (*i*) to materially change the Association's Charter or Bylaws that would materially adversely affect the holder of Series B Preferred Stock, (*ii*) to create, issue or authorize any class of stock ranking senior to the Series B Preferred Stock as to dividends or liquidation, (*iii*) certain other limited circumstances detailed in the offering circular.

Note 5: Income taxes

The Association is subject to federal and certain other income taxes. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During 2021, the Association is participating in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. The subsidiary, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

Note 6: Fair Value Measurements

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See note 14 to the 2020 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

September 30, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 233,036	$ -	$ -	$ 233,036
SBA pool securities	-	92,138,356	-	92,138,356

December 31, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 195,554	$ -	$ -	$ 195,554
SBA pool securities	-	79,720,990	-	79,720,990

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

September 30, 2021	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans*	$ -	$ -	$ 855,276	$ 855,276

December 31, 2020	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans*	$ -	$ -	$ 907,152	$ 907,152

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "*Accounting by Creditors for Impairment of a Loan.*" The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information About Recurring and Nonrecurring Level 2 Fair Value Measurements

SBA pool securities are valued using a third-party pricing vendor. The Association's vendor utilizes major pricing services including Reuters and Intercontinental Exchange. The market values are based on inputs other than quoted prices, including:

- Quoted prices for similar assets in active markets.
- Quoted prices for identical or similar assets in markets that are not active.
- Inputs other than quoted prices, which provide a reasonable basis for fair value determination. Such inputs may include interest rates and yield curves, volatilities, prepayment speeds, credit risks and default rates.
- Inputs derived principally from observable market data.

Valuation Techniques

As more fully discussed in note 2 to the 2020 Annual Report, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see notes to the 2020 Annual Report.

Assets Held in Nonqualified Benefits Trusts. Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans Evaluated for Impairment. For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were collateral-dependent. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other property owned. Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Note 7: Employee Benefit Plans

Employee Retirement Benefits. The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the nine months ended September 30:

	2021	2020
Service cost	$ 80,969	$ 89,021
Interest cost	160,755	191,822
Amortization of prior service credits	(35,905)	(35,901)
Amortization of net actuarial loss	14,845	9,927
Net periodic benefit cost	$ 220,664	$ 254,869

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2021, was $7,843,106 and is included in "Accrued postretirement benefit liability" in the balance sheet. The components of net periodic benefit cost other than the service cost component are included in the line item "Other components of net periodic postretirement benefit cost" in the income statement.

The structure of the Association's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association contributed $2,236,998 to the District's defined benefit pension plan in 2021. Pension plan funding expense was $1,677,748 and $836,593 for the nine months ended September 30, 2021 and 2020.

Note 8: Commitments and Contingent Liabilities

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

Note 9: *Accumulated Other Comprehensive Income (Loss)* ("AOCI")

AOCI includes the accumulated balance of certain gains, losses or costs for which values are included in assets or liabilities on the balance sheets, but which have not yet been recognized in earnings. For the Association, these elements include unrealized gains or losses on the AFS investment securities and amortization of retirement benefit elements. The following table summarizes the changes in the components of AOCI for the nine months ended September 30, 2021 and 2020.

	Total	Unrealized gain on SBA pool securities	Retirement benefit plans
AOCI at			
December 31, 2020	$ (414,547)	$ 326,528	$ (741,075)
SBA pool securities:			
Net change in unrealized gains	359,021	359,021	-
Retirement benefit plans:			
Amortization of prior service credits	(35,905)	-	(35,905)
Amortization of net actuarial loss	14,845	-	14,845
AOCI at			
September 30, 2021	$ (76,586)	$ 685,549	$ (762,135)

	Total	Unrealized gain on SBA pool securities	Retirement benefit plans
AOCI at			
December 31, 2019	$ (502,425)	$ 121,558	$ (623,983)
SBA pool securities:			
Net change in unrealized gains	138,024	138,024	-
Retirement benefit plans:			
Amortization of prior service credits and net actuarial loss	(25,974)	-	(25,974)
AOCI at			
September 30, 2020	$ (390,375)	$ 259,582	$ (649,957)

Note 10: Subsequent Events

Association management has evaluated subsequent events through October 27, 2021, which is the date the CFS were issued or available to be issued, with no significant events to report.