PLAINS LAND BANK, FLCA

2021
Quarterly Report
Second Quarter

For the Quarter Ended June 30, 2021

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been 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 our knowledge and belief.

Greggory S. Lloyd

Greggory S. Lloyd, Chief Executive Officer
July 31, 2021

Lyle Miller

Lyle Miller, Chairman, Board of Directors
July 31, 2021

Kay Lynn McLaughlin, Chief Financial Officer
July 31, 2021

Second Quarter 2021 Financial Report

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PLAINS LAND BANK, FLCA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Plains Land Bank, FLCA, referred to as the Association, for the quarter ended June 30, 2021. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2020 Annual Report to Stockholders.

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 financial statements comprise the operations of the FCLA. The financial statements were prepared under the oversight of the Association's audit committee.

Significant Events

In January 2021, a patronage of $8,800,000 was declared. The patronage was subsequently paid in March 2021.

Conditions in the Texas District

The United States continues to operate under a presidentially declared emergency since March 13, 2020, due to the Coronavirus Disease 2019 (also referred to as COVID-19). The Association is fulfilling its mission to support agriculture and rural communities by providing access to reliable and consistent credit. There have been no significant changes to the Association's lending activities and strategies, and the Association has maintained compliance with all interest rate risk measures. Capital levels remain adequate to support any adversity and loan demand. The Association's internal controls over financial reporting and disclosure controls and procedures are operating effectively, with no material changes to the controls or financial systems having occurred or contemplated.

The U.S. economy continued to gather momentum during the second quarter of 2021. New monthly COVID-19 cases decreased as vaccination rates improved. The recent rounds of fiscal stimulus coupled with the low interest rate environment are leading to strong economic performance. The U.S. Bureau of Economic Analysis estimates that real gross domestic product (GDP) increased at an annual rate of 6.4% in the first quarter of 2021, up from 4.3% during the fourth quarter of 2020. Additionally, as of June 2, 2021, the Federal Reserve Bank of Atlanta estimates that real GDP growth for the second quarter of 2021 was about 7.8%. According to the International Monetary Fund's April 2021 World Economic Outlook, U.S. real GDP growth is expected to be 6.4% during 2021. The most recent data available from the U.S. Bureau of Labor Statistics indicates that the quarterly average unemployment rate in the Texas District decreased during the second quarter of 2021 but remained above pre-pandemic levels. Inflationary pressure is rising as annual inflation was about 5.0% in May 2021 and the index for all items, less food and energy, rose about 3.8% over the last 12 months.

West Texas Intermediate (WTI) crude oil prices continued to increase during the second quarter of 2021, averaging about $66 per barrel, up from $58 per barrel in the previous quarter. Similarly, WTI crude oil prices increased by about 136.0% year-over-year from an average of about $28 per barrel during the second quarter of 2020. In its June Short-Term Energy Outlook, the U.S. Energy Information Administration estimated that WTI prices would average nearly $62 per barrel during 2021.

On June 30, 2021, the U.S. Department of Agriculture (USDA) released its June Acreage report. Corn planted area was estimated at 92.7 million acres, up from the previous estimate of 91.1 million acres published in March 2021 and 2.1%, or 1.9 million acres, higher than 2020. Soybean planted acreage was unchanged from the previous quarter estimate at 87.6 million acres, up about 5.4% from the previous season. Estimated planted area for corn and soybeans was below market expectations, contributing to higher prices for both crops. Cotton planted area was estimated at 11.7 million acres, down from 12.0 million acres estimated in March and 3.1% lower than the level observed in 2020. Robust demand for key commodities, persistent drought in many regions, and increasing input costs are all supportive of higher field crop prices.

According to USDA's June 2021 World Agricultural Supply and Demand Estimates report, crop prices for corn, soybeans and cotton will experience double-digit growth during the 2021/22 marketing year. USDA revised up its estimate for the average price received by farmers for all milk during 2021 and is now projecting a 3.3% year-over-year price increase, followed by a 0.5% price decrease during 2022. Steer prices are estimated to have averaged higher during the second quarter of 2021 compared to the same period last year. Additionally, average steer prices are projected to increase year-over-year in 2021 and continue rising in 2022. Lumber prices significantly increased year-over-year, reaching a peak in May 2021 of about $1,700 per 1,000 board feet before declining to below $800 per 1,000 board feet.

Agricultural exports during the first four months of 2021 reached a record $59.22 billion, exceeding the previous 2014 record by nearly $5.00 billion. At the current pace, a record-breaking year for U.S. agricultural export is possible, per USDA.

According to the National Weather Service, widespread heavy rainfall across western Texas and eastern New Mexico brought drought relief in June. At the end of the quarter, the majority of the Association's land area was not experiencing drought and had adequate soil moisture to support crop and pasture conditions. Meanwhile, the drought conditions experienced across much of the West worsened during the quarter due to below-normal precipitation and above-average temperatures. The most significant drought-related impacts are being observed in California, Nevada, Utah, Arizona and western New Mexico. The Association has isolated exposure to this region, primarily in its participation loan portfolio; however, no widespread or significant impact to the Association is foreseen at this time. Currently, the National Weather Service expects an above-average rainfall pattern to ease drought conditions for southern Arizona and much of New Mexico during July, while drought persistence is likely in the West. The winter storm experienced across portions of the U.S., including Texas, during early 2021 led to operational and financial stress for certain companies operating in the electric utility sector. The Association is actively monitoring developments related to a limited number of borrowers in its participation portfolio that were materially impacted by these conditions. However, no widespread impact is anticipated. There were no natural disaster events, such as tropical storms or droughts, significantly impacting the Association's operations during the second quarter.

For the remainder of 2021, agricultural producers may be negatively affected by several factors, including volatile commodity prices, export market disruptions, a recovering global economy, and weather-related challenges. The Association's loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a percentage of the Association's borrowers primarily rely on non-farm sources of income to repay their loans.

Loan Portfolio

Total loans outstanding at June 30, 2021, including nonaccrual loans and sales contracts, were $844,624,931 compared to $792,907,347 at December 31, 2020, reflecting an increase of 6.5 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.3 percent at June 30, 2021, compared to 0.2 percent at December 31, 2020.

The Association recorded no recoveries and $789,250 in charge-offs for the six months ended June 30, 2021, and no recoveries and $37,109 in charge-offs for the same period in 2020. The Association's allowance for loan losses was 0.4 percent of total loans outstanding as of June 30, 2021 and December 31, 2020.

Risk Exposure

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	June 30, 2021		December 31, 2020	
	Amount	**%**	Amount	%
Nonaccrual	**$ 2,206,195**	**77.4%**	$ 1,416,452	100.0%
Other property owned, net	**645,890**	**22.6%**	-	0.0%
Total	**$ 2,852,085**	**100.0%**	$ 1,416,452	100.0%

During the second quarter of 2021, the Association did not exchange any mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security.

Results of Operations

The Association had net income of $4,995,515 and $8,079,555 for the three and six months ended June 30, 2021, as compared to net income of $4,536,314 and $8,120,984 for the same period in 2020, reflecting an increase of 10.1 percent and a decrease of 0.5 percent, respectively. Net interest income was $5,703,635 and $11,227,830 for the three and six months ended June 30, 2021, compared to $5,070,291 and $10,071,793 for the same period in 2020.

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	Six Months Ended			
	June 30, 2021		June 30, 2020	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 820,258,927**	**$ 18,987,519**	$ 722,759,465	$ 18,787,996
Interest-bearing liabilities	**703,668,673**	**7,759,689**	613,465,833	8,716,203
Impact of capital	**$ 116,590,254**		$ 109,293,632	
Net interest income		**$ 11,227,830**		$ 10,071,793

	2021 Average Yield	2020 Average Yield
Yield on loans	**4.67%**	5.23%
Cost of interest-bearing liabilities	**2.22%**	2.86%
Interest rate spread	**2.45%**	2.37%
Net interest income as a percentage of average earning assets	**2.76%**	2.80%

	Six months ended: June 30, 2021 vs. June 30, 2020		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 2,527,446**	**$ (2,327,923)**	**$ 199,523**
Interest expense	**1,278,046**	**(2,234,560)**	**(956,514)**
Net interest income	**$ 1,249,400**	**$ (93,363)**	**$ 1,156,037**

Interest income for the three and six months ended June 30, 2021, increased by $353,346 and $199,523, or 3.8 and 1.1 percent respectively, from the same period of 2020, primarily due to an increase in average loan volume offset by a decrease in yields on earning assets. Interest expense for the three and six months ended June 30, 2021, decreased by $279,997 and $956,514, or 6.7 and 11 percent, from the same period of 2020 due to a decrease in interest rates offset by an increase in average loan volume. Average loan volume for the second quarter of 2021 was $820,258,927, compared to $722,759,465 in the second quarter of 2020. The average net interest rate spread on the loan portfolio for the second quarter of 2021 was 2.45 percent, compared to 2.37 percent in the second quarter of 2020.

The Association's return on average assets for the six months ended June 30, 2021, was 1.92 percent compared to 2.18 percent for the same period in 2020. The Association's return on average equity for the six months ended June 30, 2021, was 12.01 percent, compared to 12.76 percent for the same period in 2020.

Liquidity and Funding Sources

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

		June 30, 2021		December 31, 2020
Note payable to the Bank	**$**	**729,717,570**	$	678,846,912
Accrued interest on note payable		**1,320,459**		1,276,985
Total	**$**	**731,038,029**	$	680,123,897

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $729,717,570 as of June 30, 2021, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.17 percent at June 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 general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2020, is due to the Association's increase in total assets since year end. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $114,745,168 at June 30, 2021. The maximum amount the Association may borrow from the Bank as of June 30, 2021, was $852,375,019 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, 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 capital position decreased by $693,268 at June 30, 2021, compared to December 31, 2020. The Association's debt as a percentage of members' equity was 5.27:1 as of June 30, 2021, compared to 4.88:1 as of December 31, 2020.

Farm Credit Administration regulations require the Association 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. As of June 30, 2021, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

In the opinion of management, the accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (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 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 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.

In January 2021, the 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 Financial Accounting Standards Board (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. 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 associations 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.

Relationship With the Farm Credit Bank of Texas

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2020 Annual Report of Plains Land Bank, FLCA more fully describe the Association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank 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 78720-2590, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank are also available on its website at *www.farmcreditbank.com.*

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Plains Land Bank, FLCA, 1616 S. Kentucky St., Suite C-250, Amarillo, TX 79102-5210 or calling (806) 331-0926. The annual and quarterly stockholder reports for the Association are also available on its website at *www.plainslandbank.com.* Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *kmclaughlin@plainslandbank.com.*

PLAINS LAND BANK, FLCA

BALANCE SHEET

		June 30, 2021 (unaudited)		December 31, 2020
ASSETS				
Cash	$	7,159	$	13,104
Loans		844,624,931		792,907,347
Less: allowance for loan losses		3,021,121		2,963,862
Net loans		841,603,810		789,943,485
Accrued interest receivable		12,256,404		13,299,322
Investment in and receivable from the Farm Credit Bank of Texas:				
Capital stock		12,664,660		12,664,660
Other		169,493		3,894,059
Other property owned, net		645,890		-
Premises and equipment, net		2,872,229		2,570,269
Other assets		2,852,675		487,315
Total assets	$	873,072,320	$	822,872,214
LIABILITIES				
Note payable to the Farm Credit Bank of Texas	$	729,717,570	$	678,846,912
Accrued interest payable		1,320,459		1,276,985
Drafts outstanding		210,409		254,464
Other liabilities		2,596,389		2,573,092
Total liabilities		733,844,827		682,951,453
MEMBERS' EQUITY				
Capital stock and participation certificates		2,128,540		2,098,280
Unallocated retained earnings		136,976,919		137,695,231
Accumulated other comprehensive income		122,034		127,250
Total members' equity		139,227,493		139,920,761
Total liabilities and members' equity	$	873,072,320	$	822,872,214

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

PLAINS LAND BANK, FLCA

STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	**2021**	2020
INTEREST INCOME				
Loans	**$ 9,629,022**	$ 9,275,676	**$ 18,987,519**	$ 18,787,996
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**3,925,387**	4,205,385	**7,759,689**	8,716,203
Net interest income	**5,703,635**	5,070,291	**11,227,830**	10,071,793
(LOAN LOSS REVERSAL) PROVISION FOR LOAN LOSSES	**(45,158)**	(533)	**847,947**	289,251
Net interest income after provision for loan losses	**5,748,793**	5,070,824	**10,379,883**	9,782,542
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**1,000,262**	725,762	**1,992,417**	1,459,541
Loan fees	**26,345**	204,680	**295,194**	364,654
Financially related services income	**2,736**	2,925	**4,401**	4,250
Gain on sale of premises and equipment, net	**18,786**	2,523	**36,124**	67,908
Gain (Loss) on other property owned, net	**78,069**	(2,531)	**83,439**	(5,523)
Other noninterest income	**27,648**	9,507	**58,394**	210,368
Total noninterest income	**1,153,846**	942,866	**2,469,969**	2,101,198
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,058,484**	915,900	**2,806,229**	2,397,473
Directors' expense	**78,511**	34,628	**130,926**	119,417
Purchased services	**90,988**	84,044	**401,481**	225,566
Travel	**40,588**	35,374	**94,015**	96,922
Occupancy and equipment	**113,308**	102,378	**228,733**	200,831
Communications	**23,635**	24,507	**46,710**	41,617
Advertising	**73,832**	61,491	**169,982**	152,279
Public and member relations	**61,382**	24,096	**114,043**	75,828
Supervisory and exam expense	**59,401**	54,932	**132,230**	120,787
Insurance Fund premiums	**267,476**	114,888	**588,156**	275,591
Other noninterest expense	**39,519**	25,138	**57,792**	56,445
Total noninterest expenses	**1,907,124**	1,477,376	**4,770,297**	3,762,756
NET INCOME	**4,995,515**	4,536,314	**8,079,555**	8,120,984
Other comprehensive income:				
Change in postretirement benefit plans	**(2,608)**	(2,608)	**(5,216)**	(5,216)
COMPREHENSIVE INCOME	**$ 4,992,907**	$ 4,533,706	**$ 8,074,339**	$ 8,115,768

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

PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2019	$ 2,086,145	$ 129,257,637	$ 147,829	$ 131,491,611
Comprehensive income	-	8,120,984	(5,216)	8,115,768
Capital stock/participation certificates and allocated retained earnings issued	170,770	-	-	170,770
Capital stock/participation certificates and allocated retained earnings retired	(154,855)	-	-	(154,855)
Patronage refunds:				
Cash	-	(8,530,952)	-	(8,530,952)
Capital stock/participation certificates and allocated retained earnings	-	-	-	-
Balance at June 30, 2020	$ 2,102,060	$ 128,847,669	$ 142,613	$ 131,092,342
Balance at December 31, 2020	$ 2,098,280	$ 137,695,231	$ 127,250	$ 139,920,761
Comprehensive income	-	8,079,555	(5,216)	8,074,339
Capital stock/participation certificates and allocated retained earnings issued	188,070	-	-	188,070
Capital stock/participation certificates and allocated retained earnings retired	(157,810)	-	-	(157,810)
Patronage refunds:				
Cash	-	(8,800,000)	-	(8,800,000)
Capital stock/participation certificates and allocated retained earnings	-	2,133	-	2,133
Balance at June 30, 2021	**$ 2,128,540**	**$ 136,976,919**	**$ 122,034**	**$ 139,227,493**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Plains Land Bank, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Armstrong, Briscoe, Carson, Floyd, Gray, Hale, the southwest portion of Hall, Hansford, Hemphill, Hutchinson, Lipscomb, Motley, Ochiltree, Oldham, Potter, Randall, and Roberts in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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 accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (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 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 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.

In January 2021, the 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 Financial Accounting Standards Board (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. 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 associations 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 financial statements comprise the operations of the FCLA. The preparation of these financial statements requires the use of management's estimates. The results for the quarter ended June 30, 2021, are not necessarily indicative of the results to be expected for the year ended December 31, 2021. Certain amounts in the prior period's financial statements may have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**June 30, 2021 Amount**	December 31, 2020 Amount
Production agriculture:		
Real estate mortgage	**$ 721,863,538**	$ 682,404,512
Production and intermediate term	**22,709,956**	12,409,970
Agribusiness:		
Processing and marketing	**41,492,742**	40,625,531
Farm-related business	**7,365,980**	7,797,851
Loans to cooperatives	**5,244,584**	7,071,752
Energy	**16,171,263**	15,838,753
Communication	**13,495,079**	13,568,681
Rural residential real estate	**12,990,438**	12,148,303
Agricultural export finance	**2,466,376**	-
Water and waste water	**824,975**	1,041,994
Total	**$ 844,624,931**	$ 792,907,347

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2021:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 38,087,311	$ -	$ -	$ -	$ 38,087,311	$ -
Real estate mortgage	18,727,108	5,426,880	-	-	18,727,108	5,426,880
Energy	16,171,263	-	-	-	16,171,263	-
Communication	13,495,079	-	-	-	13,495,079	-
Production and intermediate term	6,578,171	-	1,752,553	-	8,330,724	-
Agricultural export finance	2,466,376	-	-	-	2,466,376	-
Water and waste water	824,975	-	-	-	824,975	-
Total	$ 96,350,283	$ 5,426,880	$ 1,752,553	$ -	$ 98,102,836	$ 5,426,880

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. As of June 30, 2021, there were $7,078,410 of ACPs contained in funds held on the balance sheet.

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	June 30, 2021	December 31, 2020
Nonaccrual loans:		
Energy	**$ 2,206,195**	$ -
Agribusiness	**-**	1,416,452
Total nonperforming loans	**2,206,195**	1,416,452
Other property owned	**645,890**	-
Total nonperforming assets	**$ 2,852,085**	$ 1,416,452

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The 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 shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2021	December 31, 2020
Real estate mortgage		
Acceptable	**98.0** %	97.3 %
OAEM	**0.1**	0.1
Substandard/doubtful	**1.9**	2.6
	100.0	100.0
Production and intermediate term		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Agribusiness		
Acceptable	**97.3**	95.0
OAEM	**2.7**	2.5
Substandard/doubtful	**-**	2.5
	100.0	100.0
Energy		
Acceptable	**86.4**	93.4
OAEM	**-**	-
Substandard/doubtful	**13.6**	6.6
	100.0	100.0
Water/waste water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Agricultural export finance		
Acceptable	**100.0**	-
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	-
Total loans		
Acceptable	**97.8**	97.2
OAEM	**0.3**	0.3
Substandard/doubtful	**1.9**	2.5
	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) as of:

June 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	**$ 6,045,115**	**$ -**	**$ 6,045,115**	**$ 727,045,894**	**$ 733,091,009**	**$ -**
Processing and marketing	**-**	**-**	**-**	**42,073,850**	**42,073,850**	**-**
Production and intermediate term	**-**	**-**	**-**	**23,033,348**	**23,033,348**	**-**
Energy	**-**	**1,198,940**	**1,198,940**	**15,023,265**	**16,222,205**	**-**
Communication	**-**	**-**	**-**	**13,495,892**	**13,495,892**	**-**
Rural residential real estate	**-**	**-**	**-**	**13,046,712**	**13,046,712**	**-**
Farm-related business	**-**	**-**	**-**	**7,370,776**	**7,370,776**	**-**
Loans to cooperatives	**-**	**-**	**-**	**5,252,793**	**5,252,793**	**-**
Agricultural export finance	**-**	**-**	**-**	**2,469,634**	**2,469,634**	**-**
Water and waste water	**-**	**-**	**-**	**825,116**	**825,116**	**-**
Total	**$ 6,045,115**	**$ 1,198,940**	**$ 7,244,055**	**$ 849,637,280**	**$ 856,881,335**	**$ -**

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	$ 5,257,354	$ -	$ 5,257,354	$ 689,901,263	$ 695,158,617	$ -
Processing and marketing	-	-	-	41,047,028	41,047,028	-
Energy	-	-	-	15,857,241	15,857,241	-
Communication	-	-	-	13,569,431	13,569,431	-
Production and intermediate term	-	-	-	12,451,155	12,451,155	-
Rural residential real estate	-	-	-	12,204,475	12,204,475	-
Farm-related business	-	-	-	7,803,077	7,803,077	-
Loans to cooperatives	-	-	-	7,073,589	7,073,589	-
Water and waste water	-	-	-	1,042,056	1,042,056	-
Total	$ 5,257,354	$ -	$ 5,257,354	$ 800,949,315	$ 806,206,669	$ -

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 the investment.

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 (TDRs) 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.

There were no troubled debt restructured loans as of June 30, 2021. There were no commitments to lend funds held to borrowers whose loan terms have been modified in a troubled debt restructuring as of June 30, 2021 and December 31, 2020

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). Charge-offs recorded at the modification date were $789,250 for the six months ending June 30, 2021.

The predominant form of concession granted for troubled debt restructuring includes concessions. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

Additional impaired loan information is as follows:

	June 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:						
Energy and water/waste water	**2,206,195**	**2,207,234**	**552,201**	-	-	-
Loans to cooperatives	**-**	**-**	**-**	1,416,452	1,537,644	75,100
Total	**$2,206,195**	**$ 2,207,234**	**$552,201**	$ 1,416,452	$1,537,644	$ 75,100
Impaired loans with no related allowance for credit losses:						
Energy and water/waste water	**-**	**-**	**-**	-	-	-
Loans to cooperatives	**-**	**-**	**-**	-	-	-
Total	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -
Total impaired loans:						
Energy and water/waste water	**2,206,195**	**2,207,234**	**552,201**	-	-	-
Loans to cooperatives	**-**	**-**	**-**	1,416,452	1,537,644	75,100
Total	**$2,206,195**	**$ 2,207,234**	**$552,201**	$ 1,416,452	$1,537,644	$ 75,100

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

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2021		June 30, 2020		**June 30, 2021**		June 30, 2020	
	Average Impaired Loans	**Interest Income Recognized**	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:								
Energy and water/waste water	**1,658,642**	**1,006**	-	-	**1,059,122**	**2,214**	-	-
Real estate mortgage	**$ -**	**$ -**	$ -	$ -	**$ -**	**$ -**	$ -	$ -
Loans to cooperatives	**-**	**-**	-	-	**-**	**-**	-	-
Total	**$1,658,642**	**$ 1,006**	$ -	$ -	**$1,059,122**	**$ 2,214**	$ -	$ -
Impaired loans with no related allowance for credit losses:								
Energy and water/waste water	**-**	**-**	-	-	**-**	**-**	-	-
Real estate mortgage	**$ -**	**$ -**	$2,737,324	$ 33,691	**$ -**	**$ -**	$2,593,541	$ 69,465
Loans to cooperatives	**-**	**-**	1,463,078	21,315	**-**	**-**	1,463,078	43,809
Total	**$ -**	**$ -**	$4,200,402	$ 55,006	**$ -**	**$ -**	$4,056,619	$ 113,274
Total impaired loans:								
Energy and water/waste water	**1,658,642**	**1,006**	-	-	**1,059,122**	**2,214**	-	-
Real estate mortgage	**$ -**	**$ -**	$2,737,324	$ 33,691	**$ -**	**$ -**	$2,593,541	$ 69,465
Loans to cooperatives	**-**	**-**	1,463,078	21,315	**-**	**-**	1,463,078	43,809
Total	**$1,658,642**	**$ 1,006**	$4,200,402	$ 55,006	**$1,059,122**	**$ 2,214**	$4,056,619	$ 113,274

A summary of changes in the allowance for loan losses, unfunded commitments, and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Allowance for Credit Losses:								
Balance at March 31, 2021	$ 2,110,443	$ 45,376	$ 314,739	$ 29,679	$ 537,258	$ 30,585	$ -	$ 3,068,080
Charge-offs	-	-	-	-	-	-	-	-
Provision for loan losses	(68,904)	(4,420)	(29,171)	(2,490)	55,362	(1,361)	5,826	(45,158)
Other	(209)	1,232	2,402	-	(5,225)	-	-	(1,801)
Balance at June 30, 2021	$ 2,041,330	$ 42,188	$ 287,970	$ 27,189	$ 587,395	$ 29,224	$ 5,826	$ 3,021,121
Balance at December 31, 2020	$ 2,240,849	$ 38,077	$ 369,848	$ 28,759	$ 255,256	$ 31,073	$ -	$ 2,963,862
Charge-offs	-	-	(789,250)	-	-	-	-	(789,250)
Provision for loan losses	(198,222)	8,875	694,577	(1,570)	340,310	(1,849)	5,826	847,947
Other	(1,297)	(4,764)	12,795	-	(8,171)	-	-	(1,438)
Balance at June 30, 2021	$ 2,041,330	$ 42,188	$ 287,970	$ 27,189	$ 587,395	$ 29,224	$ 5,826	$ 3,021,121
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 552,201	$ -	$ -	$ 552,201
Collectively evaluated for impairment	2,041,330	42,188	287,970	27,189	35,194	29,224	5,826	2,468,920
Balance at June 30, 2021	$ 2,041,330	$ 42,188	$ 287,970	$ 27,189	$ 587,395	$ 29,224	$ 5,826	$ 3,021,121
Balance at March 31, 2020	$ 1,917,755	$ 14,325	$ 314,554	$ 24,242	$ 66,009	$ 28,030	$ -	$ 2,364,915
Charge-offs	(37,109)	-	-	-	-	-	-	(37,109)
Provision for loan losses	(34,032)	3,117	18,355	4,127	5,985	1,915	-	(533)
Other	(390)	(468)	(8,184)	-	1,199	-	-	(7,843)
Balance at June 30, 2020	$ 1,846,224	$ 16,974	$ 324,725	$ 28,369	$ 73,193	$ 29,945	$ -	$ 2,319,430
Balance at December 31, 2019	$ 1,698,408	$ 15,516	$ 256,667	$ 22,189	$ 58,021	$ 23,512	$ -	$ 2,074,313
Charge-offs	(37,109)	-	-	-	-	-	-	(37,109)
Provision for loan losses	185,788	1,134	77,355	6,180	12,361	6,433	-	289,251
Other	(863)	324	(9,297)	-	2,811	-	-	(7,025)
Balance at June 30, 2020	$ 1,846,224	$ 16,974	$ 324,725	$ 28,369	$ 73,193	$ 29,945	$ -	$ 2,319,430
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	1,846,224	16,974	324,725	28,369	73,193	29,945	-	2,319,430
Balance at June 30, 2020	$ 1,846,224	$ 16,974	$ 324,725	$ 28,369	$ 73,193	$ 29,945	$ -	$ 2,319,430

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at June 30, 2021	$ 733,091,009	$ 23,033,348	$ 54,697,419	$ 13,495,892	$ 17,047,321	$ 13,046,712	$ 2,469,634	$ 856,881,335
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 2,206,195	$ -	$ -	$ 2,206,195
Collectively evaluated for impairment	$ 733,091,009	$ 23,033,348	$ 54,697,419	$ 13,495,892	$ 14,841,126	$ 13,046,712	$ 2,469,634	$ 854,675,140
Ending Balance at December 31, 2020	$ 695,158,617	$ 12,451,155	$ 55,923,694	$ 13,569,431	$ 16,899,297	$ 12,204,475	$ -	$ 806,206,669
Individually evaluated for impairment	$ -	$ -	$ 1,416,452	$ -	$ -	$ -	$ -	$ 1,416,452
Collectively evaluated for impairment	$ 695,158,617	$ 12,451,155	$ 54,507,242	$ 13,569,431	$ 16,899,297	$ 12,204,475	$ -	$ 804,790,217

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Operating lease cost	**$ 18,011**	**$ 12,322**	**$ 36,022**	**$ 13,537**
Net lease cost	**$ 18,011**	**$ 12,322**	**$ 36,022**	**$ 13,537**

Other information related to leases was as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows for operating leases	**$ 18,403**	$ 765	**$ 36,572**	$ 1,980
Right-of-use assets obtained in exchange for new lease obligations:				
Operating leases	**$ (16,313)**	$ (760)	**$ 257,374**	$ 180

Lease term and discount rate are as follows:

	June 30, 2021	December 31, 2020
Weighted average remaining lease term in years		
Operating leases	**3.79**	4.95
Weighted average discount rate		
Operating leases	**2.43%**	2.44%

Future minimum lease payments under non-cancellable leases as of June 30, 2021 were as follows:

	Operating Leases
2021	$ 37,038
2022	73,917
2023	73,790
2024	75,270
2025	25,256
Thereafter	-
Total lease payments	$ 285,271
Less: interest	12,465
Total	$ 272,806

During the first quarter of 2021, the Association entered into a sales-type lease agreement in which the Association is the lessor. At the termination of the lease, the Association will grant the lessee the option to purchase the property which was valued at $318,059 at the inception of the lease.

Components of lease receivable were as follows:

	June 30, 2021
Net investment in the lease	**$ 308,064**
Unguaranteed residutal value of leased assets	**$ 272,898**

Other information related to sales-type leases was as follows:

	For the Three Months Ended **June 30, 2021**	For the Six Months Ended June 30, 2021
Profit recognized at the commencement of the lease	**$ 12,636**	$ 12,636
Interest income	**$ 2,605**	$ 2,605
Cash received for amounts included in the measurement of leased assets	**$ 20,000**	$ 22,630

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

Risk-adjusted:	**Regulatory Requirements Including Capital Conservation Buffers**	**As of June 30, 2021**	As of December 31, 2020
Common equity Tier 1 ratio	7.00%	**14.11%**	14.92%
Tier 1 capital ratio	8.50%	**14.11%**	14.92%
Total capital ratio	10.50%	**14.48%**	15.24%
Permanent capital ratio	7.00%	**14.16%**	14.97%
Non-risk-adjusted:			
Tier 1 leverage ratio	5.00%	**14.52%**	15.36%
UREE leverage ratio	1.50%	**15.77%**	16.50%

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) are as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity Tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of seven years, allocated equities held for a minimum of seven years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Tier 1 capital ratio is common equity Tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.

- Total capital is Tier 1 capital plus other required borrower stock held for a minimum of five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred stock greater than five years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.

- Tier 1 leverage ratio is Tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to Tier 1 capital.

- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to Tier 1 capital.

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

The components of the Association's risk-adjusted capital, based on 90-day average balances, were as follows on June 30, 2021:

June 30, 2021	Common equity Tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**133,207,956**	**133,207,956**	**133,207,956**	**133,207,956**
Statutory minimum purchased borrower stock	**2,110,354**	**2,110,354**	**2,110,354**	**2,110,354**
Allowance for loan losses and reserve for credit losses subject to certain limitations			**3,168,806**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(12,664,660)**	**(12,664,660)**	**(12,664,660)**	**(12,664,660)**
	122,653,650	**122,653,650**	**125,822,456**	**122,653,650**
Denominator:				
Risk-adjusted assets excluding allowance	**881,689,877**	**881,689,877**	**881,689,877**	**881,689,877**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(12,664,660)**	**(12,664,660)**	**(12,664,660)**	**(12,664,660)**
Allowance for loan losses				**(3,060,556)**
	869,025,217	**869,025,217**	**869,025,217**	**865,964,661**

December 31, 2020	Common equity Tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	132,991,905	132,991,905	132,991,905	132,991,905
Statutory minimum purchased borrower stock	2,098,803	2,098,803	2,098,803	2,098,803
Allowance for loan losses and reserve for credit losses subject to certain limitations			2,641,411	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(11,244,363)	(11,244,363)	(11,244,363)	(11,244,363)
	123,846,345	123,846,345	126,487,756	123,846,345
Denominator:				
Risk-adjusted assets excluding allowance	841,194,873	841,194,873	841,194,873	841,194,873
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(11,244,363)	(11,244,363)	(11,244,363)	(11,244,363)
Allowance for loan losses				(2,542,510)
	829,950,510	829,950,510	829,950,510	827,408,000

The components of the Association's non-risk-adjusted capital, based on 90-day average balances, were as follows on June 30, 2021:

	June 30, 2021		December 31, 2020	
	Tier 1 leverage ratio	**UREE leverage ratio**	Tier 1 leverage ratio	UREE leverage ratio
Numerator:				
Unallocated retained earnings	**133,207,956**	**133,207,956**	132,991,905	132,991,905
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,110,354**	**-**	2,098,803	-
Amount of allocated investments in other System institutions	**(12,664,660)**	**-**	(11,244,363)	-
	122,653,650	**133,207,956**	123,846,345	132,991,905
Denominator:				
Total Assets	**858,395,939**	**858,395,939**	819,430,557	819,430,557
Regulatory Adjustments and Deductions:				
Regulatory deductions included in Tier 1 capital	**(13,597,513)**	**(13,597,513)**	(13,172,697)	(13,172,697)
	844,798,426	**844,798,426**	806,257,860	806,257,860

An additional component of equity is accumulated other comprehensive income, which is reported as follows:

Accumulated Other Comprehensive Income

		June 30, 2021
Nonpension postretirement benefits	**$**	**122,034**
Total	**$**	**122,034**

		June 30, 2020
Nonpension postretirement benefits	$	142,613
Total	$	142,613

The Association's accumulated other comprehensive income relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits is reflected in "Salaries and employee benefits" in the Statement of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income for the six months ended June 30:

	2021	2020
Accumulated other comprehensive income at January 1	**$ 127,250**	$ 147,829
Amortization of prior service credit included in salaries and employee benefits	**(5,216)**	(5,216)
Other comprehensive (loss), net of tax	**(5,216)**	(5,216)
Accumulated other comprehensive income at June 30	**$ 122,034**	$ 142,613

NOTE 5 — 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 13 to the 2020 Annual Report to Stockholders for a more complete description.

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

June 30, 2021	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Other property owned	**-**	**-**	**645,890**	**645,890**	**83,439**

December 31, 2020	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans*	$ -	$ -	$1,341,352	$ 1,341,352	$ -
Other property owned	-	-	-	-	-

*Represents the fair value of certain loans that were evaluated for impairment under the 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.

Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, 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.

Valuation Techniques

As more fully discussed in Note 13 to the 2020 Annual Report to Stockholders, 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 to Stockholders.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the associations’ current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the associations’ current loan origination rates as well as management’s estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. 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.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

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 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the six months ended June 30:

Six months ended June 30:

	Other Benefits	
	2021	2020
Service cost	**$ 2,763**	$ 4,504
Interest cost	**16,225**	19,693
Amortization of prior service (credits)	**(5,216)**	(5,216)
Net periodic benefit cost	**$ 13,772**	$ 18,981

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2021, was $1,178,187 and is included in other liabilities on 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 District'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 previously disclosed in its financial statements for the year ended December 31, 2020, that it expected to contribute $43,973 to the District's defined benefit pension plan in 2021. As of June 30, 2021, $224,643 of contributions have been made. The Association presently anticipates contributing an additional $224,643 to fund the defined benefit pension plan in 2021 for a total of $449,286.

NOTE 7 — 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 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through July 31, 2021, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of July 31, 2021.