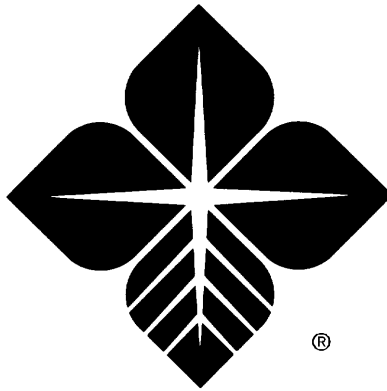


**PLAINS LAND BANK, FLCA**

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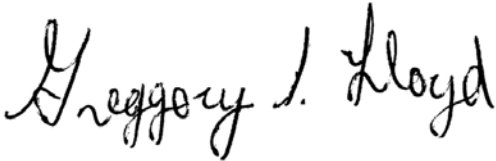
**2021  
Quarterly Report  
Third Quarter**



**For the Quarter Ended September 30, 2021**

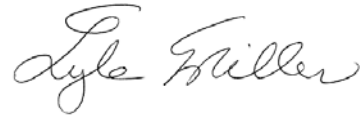
**REPORT OF MANAGEMENT**

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.



Gregory S. Lloyd, Chief Executive Officer

*November 2, 2021*



Lyle Miller, Chairman, Board of Directors

*November 2, 2021*



Kay Lynn McLaughlin, Chief Financial Officer/CEO Elect

*November 2, 2021*



Holly Hofmann, Chief Financial Officer

*November 2, 2021*

*Third 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 September 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 FLCA. 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 U.S. economy is estimated to have decelerated during the third quarter of 2021 due primarily to a surge in new COVID-19 cases and supply chain disruptions that negatively impacted performance. The U.S. Bureau of Economic Analysis estimates that real gross domestic product (GDP) increased at an annual rate of 6.7% in the second quarter of 2021, up from 6.3% during the first quarter of 2021. However, as of October 1, 2021, the Federal Reserve Bank of Atlanta estimates that real GDP growth was about 2.3% during the third quarter of 2021. According to the International Monetary Fund's latest World Economic Outlook, released on July 27, 2021, U.S. real GDP growth is estimated to be 7.0% in 2021. Inflationary pressures persisted during the third quarter of 2021. The annual inflation rate increased in July and August 2021, reaching 5.3%. Additionally, the most recent data available from the U.S. Bureau of Labor Statistics indicates that the unemployment rate decreased in each of the states within the Texas District during July and August 2021 but remained above pre-pandemic levels.

West Texas Intermediate (WTI) crude oil prices continued to rise during the third quarter of 2021, averaging slightly above \$70 per barrel, up from \$66 per barrel in the previous quarter. Similarly, WTI crude oil prices increased by about 72.0% year-over-year from an average of about \$41 per barrel during the third quarter of 2020. In its September 2021 Short-Term Energy Outlook (STEO), the U.S. Energy Information Administration estimated that WTI prices would average nearly \$66 per barrel during 2021, up about \$4 per barrel from the previous quarter. The September 2021 STEO also states that natural gas prices increased in August 2021, reflecting higher demand from the electric power sector due to hotter temperatures. Prices rose further by the end of August 2021 due to disruptions in natural gas production caused by Hurricane Ida in the Gulf of Mexico.

In September 2021, the U.S. Department of Agriculture (USDA) presented its latest farm income forecast. Net farm income is forecasted at \$113.03 billion in 2021, up \$18.45 billion or 19.5% year-over-year. Total production expenses are forecasted to increase by about 3.5% in 2021 when adjusted for inflation. Farm sector assets and equity are both forecasted to increase by about 2.5% and 2.9%, respectively, while farm debt is forecasted to decrease by about 0.2% in real terms. After deteriorating since 2012, the debt-to-assets ratio is forecasted to fall (i.e., improve) in 2021. The bankruptcy rate and the debt service ratio are similarly forecasted to improve in 2021.

According to the USDA's September 2021 World Agricultural Supply and Demand Estimates report, average farm prices for corn, soybeans and cotton are still on track to experience double-digit growth during the 2021/22 marketing year. Steer prices are estimated to have averaged higher during the third quarter of 2021 compared to the prior quarter and are expected to continue rising during the fourth quarter of 2021. Additionally, steers, barrows and gilts, broilers, and turkey prices are also projected to experience double-digit year-over-year price growth in 2021. However, the USDA revised down by nearly 4 percentage points its estimate for the average farm price of all-milk during 2021 compared to its June 2021 estimate. The all-milk price is now projected to decline by about 0.5% year-over-year in 2021, before increasing by 1.4% during 2022. Lumber prices continued to decline this quarter but were still slightly higher year-over-year in 2021.

Weather conditions in the area have generally been favorable for crop and livestock production year-to-date. Crop yields are likely to be above average during 2021. The winter storm experienced across portions of the U.S., including Texas, in February 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.

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 portfolio is well-supported by industry diversification. 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 September 30, 2021, including nonaccrual loans and sales contracts, were \$875,946,992 compared to \$792,907,347 at December 31, 2020, reflecting an increase of 10.5 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at September 30, 2021 and December 31, 2020.

The Association recorded \$1,084 in recoveries and no charge-offs for the quarter ended September 30, 2021, and no recoveries and \$158,301 in charge-offs for the same period in 2020. The Association's allowance for loan losses was 0.3 percent and 0.4 percent of total loans outstanding as of September 30, 2021, and December 31, 2020, respectively.

#### *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.

	<b>September 30, 2021</b>		<b>December 31, 2020</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Nonaccrual	\$ 2,161,051	56.5%	\$ 1,416,452	100.0%
90 days past due and still accruing interest	1,022,688	26.8%	-	0.0%
Other property owned, net	637,390	16.7%	-	0.0%
Total	<u>\$ 3,821,129</u>	<u>100.0%</u>	<u>\$ 1,416,452</u>	<u>100.0%</u>

During the third 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 \$5,164,687 and \$13,244,240 for the three and nine months ended September 30, 2021, as compared to net income of \$4,032,561 and \$12,153,544 for the same period in 2020, reflecting an increase of 28.1 percent and 9.0 percent, respectively. Net interest income was \$5,968,076 and \$17,195,906 for the three and nine months ended September 30, 2021, compared to \$5,195,206 and \$15,266,997 for the same period in 2020.

	<b>Nine Months Ended</b>			
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2021</b>		<b>2020</b>	
	<b>Average Balance</b>	<b>Interest</b>	<b>Average Balance</b>	<b>Interest</b>
Loans	<b>\$ 833,522,309</b>	<b>\$ 29,038,558</b>	\$ 734,447,213	\$ 28,067,867
Interest-bearing liabilities	<b>717,663,763</b>	<b>11,842,652</b>	626,338,462	12,800,870
Impact of capital	<b>\$ 115,858,546</b>		<b>\$ 108,108,751</b>	
Net interest income		<b>\$ 17,195,906</b>		<b>\$ 15,266,997</b>
		<b>2021</b>		<b>2020</b>
		<b>Average Yield</b>		<b>Average Yield</b>
Yield on loans		<b>4.66%</b>		5.10%
Cost of interest-bearing liabilities		<b>2.21%</b>		2.73%
Interest rate spread		<b>2.45%</b>		2.37%
Net interest income as a percentage of average earning assets		<b>2.76%</b>		2.78%

	<b>Nine months ended:</b>		
	<b>September 30, 2021 vs. September 30, 2020</b>		
	<b>Increase (decrease) due to</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
Interest income - loans	<b>\$ 3,894,742</b>	<b>\$ (2,924,051)</b>	<b>\$ 970,691</b>
Interest expense	<b>1,864,763</b>	<b>(2,822,981)</b>	<b>(958,218)</b>
Net interest income	<b>\$ 2,029,979</b>	<b>\$ (101,070)</b>	<b>\$ 1,928,909</b>

Interest income for the three and nine months ended September 30, 2021, increased by \$771,167 and \$970,691, or 8.3 percent and 3.5 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 nine months ended September 30, 2021, decreased by \$1,703 and \$958,218, or 0.1 percent and 7.5 percent, from the same period of 2020 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the third quarter end of 2021 was \$859,616,572, compared to \$757,568,629 in the third quarter end of 2020. The average net interest rate spread on the loan portfolio for the third quarter of 2021 was 2.43 percent, compared to 2.37 percent in the third quarter of 2020.

The Association's return on average assets for the nine months ended September 30, 2021, was 2.06 percent compared to 2.13 percent for the same period in 2020. The Association's return on average equity for the nine months ended September 30, 2021, was 12.87 percent, compared to 12.53 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.

	<b>September 30, 2021</b>	December 31, 2020
Note payable to the Bank	\$ <b>761,015,567</b>	\$ 678,846,912
Accrued interest on note payable	<b>1,364,996</b>	1,276,985
Total	<b>\$ 762,380,563</b>	<b>\$ 680,123,897</b>

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 \$761,015,567 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 2.15 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 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 \$114,830,496 at September 30, 2021. The maximum amount the Association may borrow from the Bank as of September 30, 2021, was \$887,847,342 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 increased by \$4,504,215 at September 30, 2021, compared to December 31, 2020. The Association's debt as a percentage of members' equity was 5.30:1 as of September 30, 2021, compared to 4.88:1 as of December 31, 2020.

Farm Credit Administration regulations requires 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 September 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, FCLA 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](http://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](http://www.plainslandbank.com). Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [hhofmann@plainslandbank.com](mailto:hhofmann@plainslandbank.com).



**PLAINS LAND BANK, FLCA**

**BALANCE SHEET**

	<b>September 30, 2021 (unaudited)</b>	December 31, 2020
<b><u>ASSETS</u></b>		
Cash	\$ 8,383	\$ 13,104
Loans	875,946,992	792,907,347
Less: allowance for loan losses	2,822,159	2,963,862
Net loans	873,124,833	789,943,485
Accrued interest receivable	16,655,039	13,299,322
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	12,664,660	12,664,660
Other	2,806,801	3,894,059
Other property owned, net	637,390	-
Premises and equipment, net	2,760,434	2,570,269
Other assets	885,030	487,315
Total assets	<b>\$ 909,542,570</b>	<b>\$ 822,872,214</b>
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 761,015,567	\$ 678,846,912
Accrued interest payable	1,364,996	1,276,985
Drafts outstanding	11,847	254,464
Other liabilities	2,725,184	2,573,092
Total liabilities	<b>765,117,594</b>	<b>682,951,453</b>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	2,163,945	2,098,280
Unallocated retained earnings	142,141,605	137,695,231
Accumulated other comprehensive income	119,426	127,250
Total members' equity	<b>144,424,976</b>	<b>139,920,761</b>
Total liabilities and members' equity	<b>\$ 909,542,570</b>	<b>\$ 822,872,214</b>

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

PLAINS LAND BANK, FLCA

STATEMENTS OF COMPREHENSIVE INCOME  
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 10,051,039	\$ 9,279,872	\$ 29,038,558	\$ 28,067,867
<b><u>INTEREST EXPENSE</u></b>				
Note payable to the Farm Credit Bank of Texas	4,082,963	4,084,666	11,842,652	12,800,870
Net interest income	5,968,076	5,195,206	17,195,906	15,266,997
<b><u>(LOAN LOSS REVERSAL)</u></b>				
<b><u>PROVISION FOR LOAN LOSSES</u></b>	(207,616)	310,605	640,331	599,856
Net interest income after provision for loan losses	6,175,692	4,884,601	16,555,575	14,667,141
<b><u>NONINTEREST INCOME</u></b>				
Income from the Farm Credit Bank of Texas:				
Patronage income	1,005,568	719,539	2,997,985	2,179,080
Loan fees	54,983	234,650	350,177	599,304
Financially related services income	1,587	1,234	5,988	5,485
Gain (loss) on other property owned, net	(11,766)	(525)	71,673	(6,048)
Gain on sale of premises and equipment, net	8,464	1,423	44,588	69,331
Other noninterest income	4	-	58,399	210,368
Total noninterest income	1,058,840	956,321	3,528,810	3,057,520
<b><u>NONINTEREST EXPENSES</u></b>				
Salaries and employee benefits	1,109,886	811,365	3,916,115	3,208,837
Directors' expense	37,413	26,739	168,339	146,156
Purchased services	133,016	291,975	534,497	517,541
Travel	48,751	37,740	142,766	134,662
Occupancy and equipment	162,140	116,457	390,873	317,288
Communications	24,339	23,540	71,050	65,157
Advertising	78,622	105,379	248,604	257,658
Public and member relations	37,684	114,711	151,727	190,540
Supervisory and exam expense	78,965	72,829	211,195	193,616
Insurance Fund premiums	280,023	168,047	868,179	443,638
Other noninterest expense	79,007	39,579	136,799	96,024
Total noninterest expenses	2,069,846	1,808,361	6,840,144	5,571,117
<b>NET INCOME</b>	<b>5,164,686</b>	<b>4,032,561</b>	<b>13,244,241</b>	<b>12,153,544</b>
Other comprehensive income:				
Change in postretirement benefit plans	(2,608)	(2,608)	(7,824)	(7,824)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 5,162,078</b>	<b>\$ 4,029,953</b>	<b>\$ 13,236,417</b>	<b>\$ 12,145,720</b>

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

PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Retained Earnings Unallocated</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2019	\$ 2,086,145	\$ 129,257,637	\$ 147,829	\$ 131,491,611
Comprehensive income	-	12,153,544	(7,824)	12,145,720
Capital stock/participation certificates and allocated retained earnings issued	265,915	-	-	265,915
Capital stock/participation certificates and allocated retained earnings retired	(261,195)	-	-	(261,195)
Patronage refunds:				
Cash	-	(8,530,951)	-	(8,530,951)
Capital stock/participation certificates and allocated retained earnings	-	-	-	-
<b>Balance at September 30, 2020</b>	<u><u>\$ 2,090,865</u></u>	<u><u>\$ 132,880,230</u></u>	<u><u>\$ 140,005</u></u>	<u><u>\$ 135,111,100</u></u>
Balance at December 31, 2020	\$ 2,098,280	\$ 137,695,231	\$ 127,250	\$ 139,920,761
Comprehensive income	-	13,244,241	(7,824)	13,236,417
Capital stock/participation certificates and allocated retained earnings issued	282,840	-	-	282,840
Capital stock/participation certificates and allocated retained earnings retired	(217,175)	-	-	(217,175)
Cash	-	(8,800,000)	-	(8,800,000)
Capital stock/participation certificates and allocated retained earnings	-	2,133	-	2,133
<b>Balance at September 30, 2021</b>	<u><u>\$ 2,163,945</u></u>	<u><u>\$ 142,141,605</u></u>	<u><u>\$ 119,426</u></u>	<u><u>\$ 144,424,976</u></u>

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

**PLAINS LAND BANK, FCLA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*Unaudited*

**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 associations. 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 September 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	September 30, 2021 Amount	December 31, 2020 Amount
Production agriculture:		
Real estate mortgage	\$ 771,139,384	\$ 682,404,512
Production and intermediate term	4,976,814	12,409,970
Agribusiness:		
Processing and marketing	42,723,613	40,625,531
Farm-related business	7,520,172	7,797,851
Loans to cooperatives	4,537,449	7,071,752
Energy	15,865,718	15,838,753
Rural residential real estate	13,892,955	12,148,303
Communication	11,733,366	13,568,681
Agricultural export finance	1,997,871	-
Water and waste water	1,559,650	1,041,994
Total	\$ 875,946,992	\$ 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 September 30, 2021:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	\$ 38,781,639	\$ -	\$ -	\$ -	\$ 38,781,639	\$ -
Real estate mortgage	18,661,436	4,406,595	7,536,111	-	26,197,547	4,406,595
Energy	15,865,718	-	-	-	15,865,718	-
Communication	11,733,366	-	-	-	11,733,366	-
Production and intermediate term	4,976,814	-	-	-	4,976,814	-
Agricultural export finance	1,997,871	-	-	-	1,997,871	-
Water and waste water	1,559,650	-	-	-	1,559,650	-
Total	\$ 93,576,494	\$ 4,406,595	\$ 7,536,111	\$ -	\$101,112,605	\$ 4,406,595

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 September 30, 2021, there were \$10,247,316 of ACPs contained in funds held on the balance sheet.

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

	<b>September 30, 2021</b>	December 31, 2020
<b>Nonaccrual loans:</b>		
Energy	\$ 2,161,051	\$ -
Real estate mortgage	-	-
Agribusiness	-	1,416,452
Total nonaccrual loans	<u>2,161,051</u>	<u>1,416,452</u>
<b>Accruing loans 90 days or more past due:</b>		
Energy	-	-
Real estate mortgage	1,022,688	-
Agribusiness	-	-
Total accruing loans 90 days or more past due	<u>1,022,688</u>	<u>-</u>
Total nonperforming loans	3,183,739	1,416,452
Other property owned	637,390	-
Total nonperforming assets	<u>\$ 3,821,129</u>	<u>\$ 1,416,452</u>

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:

	<b>September 30, 2021</b>	December 31, 2020
Real estate mortgage		
Acceptable	<b>98.2</b> %	97.3 %
OAEM	<b>0.1</b>	0.1
Substandard/doubtful	<b>1.7</b>	2.6
	<b>100.0</b>	100.0
Production and intermediate term		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Agribusiness		
Acceptable	<b>100.0</b>	95.0
OAEM	-	2.5
Substandard/doubtful	-	2.5
	<b>100.0</b>	100.0
Energy		
Acceptable	<b>86.5</b>	93.4
OAEM	-	-
Substandard/doubtful	<b>13.5</b>	6.6
	<b>100.0</b>	100.0
Water/waste water		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Communication		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Rural residential real estate		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Agricultural export finance		
Acceptable	<b>100.0</b>	-
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	-
Total loans		
Acceptable	<b>98.2</b>	97.2
OAEM	<b>0.1</b>	0.3
Substandard/doubtful	<b>1.7</b>	2.5
	<b>100.0</b> %	100.0 %

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

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	\$ -	\$ 1,022,688	\$ 1,022,688	\$ 786,391,188	\$ 787,413,876	\$ 1,022,688
Processing and marketing	-	-	-	42,853,796	42,853,796	-
Energy	-	1,198,940	1,198,940	14,821,452	16,020,392	-
Rural residential real estate	-	-	-	13,955,694	13,955,694	-
Communication	-	-	-	11,733,981	11,733,981	-
Farm-related business	-	-	-	7,524,029	7,524,029	-
Production and intermediate term	-	-	-	4,994,163	4,994,163	-
Loans to cooperatives	-	-	-	4,544,635	4,544,635	-
Agricultural export finance	-	-	-	2,001,128	2,001,128	-
Water and waste water	-	-	-	1,560,337	1,560,337	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 2,221,628</b>	<b>\$ 2,221,628</b>	<b>\$ 890,380,403</b>	<b>\$ 892,602,031</b>	<b>\$ 1,022,688</b>
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	-
Rural residential real estate	-	-	-	12,204,475	12,204,475	-
Communication	-	-	-	13,569,431	13,569,431	-
Farm-related business	-	-	-	7,803,077	7,803,077	-
Production and intermediate term	-	-	-	12,451,155	12,451,155	-
Loans to cooperatives	-	-	-	7,073,589	7,073,589	-
Agricultural export finance	-	-	-	-	-	-
Water and waste water	-	-	-	1,042,056	1,042,056	-
<b>Total</b>	<b>\$ 5,257,354</b>	<b>\$ -</b>	<b>\$ 5,257,354</b>	<b>\$ 800,949,315</b>	<b>\$ 806,206,669</b>	<b>\$ -</b>

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 September 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 September 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 nine months ending September 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 assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.



Additional impaired loan information is as follows:

	September 30, 2021			December 31, 2020		
	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance
Impaired loans with a related allowance for credit losses:						
Energy	\$2,161,051	\$2,162,091	\$465,485	\$-	\$-	\$-
Real estate mortgage	-	-	-	-	-	-
Loans to cooperatives	-	-	-	1,416,452	1,537,644	75,100
Total	<u>\$2,161,051</u>	<u>\$2,162,091</u>	<u>\$465,485</u>	<u>\$1,416,452</u>	<u>\$1,537,644</u>	<u>\$75,100</u>
Impaired loans with no related allowance for credit losses:						
Energy	\$-	\$-	\$-	\$-	\$-	\$-
Real estate mortgage	1,022,688	928,605	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-
Total	<u>\$1,022,688</u>	<u>\$928,605</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>
Total impaired loans:						
Energy	\$2,161,051	\$2,162,091	\$465,485	\$-	\$-	\$-
Real estate mortgage	1,022,688	928,605	-	-	-	-
Loans to cooperatives	-	-	-	1,416,452	1,537,644	75,100
Total	<u>\$3,183,739</u>	<u>\$3,090,696</u>	<u>\$465,485</u>	<u>\$1,416,452</u>	<u>\$1,537,644</u>	<u>\$75,100</u>

<sup>a</sup> Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2021		September 30, 2020		September 30, 2021		September 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	\$2,204,178	\$-	\$-	\$-	\$1,447,817	\$2,214	\$-	\$-
Real estate mortgage	-	-	-	-	-	-	-	-
Loans to cooperatives	-	-	523,471	11,707	-	-	175,764	55,517
Total	<u>\$2,204,178</u>	<u>\$-</u>	<u>\$523,471</u>	<u>\$11,707</u>	<u>\$1,447,817</u>	<u>\$2,214</u>	<u>\$175,764</u>	<u>\$55,517</u>
Impaired loans with no related allowance for credit losses:								
Energy	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Real estate mortgage	928,605	17,491	874,721	9,560	928,605	52,407	777,635	44,187
Loans to cooperatives	-	-	-	-	-	-	-	-
Total	<u>\$928,605</u>	<u>\$17,491</u>	<u>\$874,721</u>	<u>\$9,560</u>	<u>\$928,605</u>	<u>\$52,407</u>	<u>\$777,635</u>	<u>\$44,187</u>
Total impaired loans:								
Energy	\$2,204,178	\$-	\$-	\$-	\$1,447,817	\$2,214	\$-	\$-
Real estate mortgage	928,605	17,491	874,721	9,560	928,605	52,407	777,635	44,187
Loans to cooperatives	-	-	523,471	11,707	-	-	175,764	55,517
Total	<u>\$3,132,783</u>	<u>\$17,491</u>	<u>\$1,398,192</u>	<u>\$21,267</u>	<u>\$2,376,422</u>	<u>\$54,621</u>	<u>\$953,399</u>	<u>\$99,704</u>

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
<b>Allowance for Credit Losses:</b>								
Balance at June 30, 2021	\$ 2,041,330	\$ 42,188	\$ 287,970	\$ 27,189	\$ 587,395	\$ 29,224	\$ 5,826	\$ 3,021,122
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	1,084	-	-	-	-	-	-	1,084
Provision for loan losses	(5,375)	(34,702)	(64,966)	(2,833)	(102,567)	2,827	-	(207,616)
Other	728	7,490	4,464	-	(3,305)	(1,808)	-	7,569
Balance at September 30, 2021	\$ 2,037,767	\$ 14,976	\$ 227,468	\$ 24,356	\$ 481,523	\$ 30,243	\$ 5,826	\$ 2,822,159
Balance at December 31, 2020	\$ 2,240,848	\$ 38,077	\$ 369,848	\$ 28,759	\$ 255,257	\$ 31,073	\$ -	\$ 2,963,862
Charge-offs	-	-	(789,250)	-	-	-	-	(789,250)
Recoveries	1,084	-	-	-	-	-	-	1,084
Provision for loan losses	(203,597)	(25,827)	629,611	(4,403)	237,743	978	5,826	640,331
Other	(568)	2,726	17,259	-	(11,477)	(1,808)	-	6,132
Balance at September 30, 2021	\$ 2,037,767	\$ 14,976	\$ 227,468	\$ 24,356	\$ 481,523	\$ 30,243	\$ 5,826	\$ 2,822,159
Ending Balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 465,485	\$ -	\$ -	\$ 465,485
Collectively evaluated for impairment	2,037,767	14,976	227,468	24,356	16,038	30,243	5,826	2,356,674
Balance at September 30, 2021	\$ 2,037,767	\$ 14,976	\$ 227,468	\$ 24,356	\$ 481,523	\$ 30,243	\$ 5,826	\$ 2,822,159
Balance at June 30, 2020	\$ 1,846,224	\$ 16,974	\$ 324,725	\$ 28,369	\$ 73,193	\$ 29,945	\$ -	\$ 2,319,430
Charge-offs	(121,192)	-	-	-	-	-	-	(121,192)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	260,410	(450)	54,842	(143)	(3,900)	(154)	-	310,605
Other	890	(442)	(16,206)	-	597	-	-	(15,161)
Balance at September 30, 2020	\$ 1,986,332	\$ 16,082	\$ 363,361	\$ 28,226	\$ 69,890	\$ 29,791	\$ -	\$ 2,493,682
Balance at December 31, 2019	\$ 1,698,408	\$ 15,516	\$ 256,667	\$ 22,189	\$ 58,021	\$ 23,512	\$ -	\$ 2,074,313
Charge-offs	(158,301)	-	-	-	-	-	-	(158,301)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	446,198	684	132,197	6,037	8,461	6,279	-	599,856
Other	27	(118)	(25,503)	-	3,408	-	-	(22,186)
Balance at September 30, 2020	\$ 1,986,332	\$ 16,082	\$ 363,361	\$ 28,226	\$ 69,890	\$ 29,791	\$ -	\$ 2,493,682
Ending Balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ 85,697	\$ -	\$ -	\$ -	\$ -	\$ 85,697
Collectively evaluated for impairment	1,986,332	16,082	277,664	28,226	69,890	29,791	-	2,407,985
Balance at September 30, 2020	\$ 1,986,332	\$ 16,082	\$ 363,361	\$ 28,226	\$ 69,890	\$ 29,791	\$ -	\$ 2,493,682
<b>Recorded Investments in Loans Outstanding:</b>								
Ending Balance at								
September 30, 2021	\$ 787,413,876	\$ 4,994,163	\$ 54,922,460	\$ 11,733,981	\$ 17,580,729	\$ 13,955,694	\$ 2,001,128	\$ 892,602,031
Individually evaluated for impairment	\$ 1,022,688	\$ -	\$ -	\$ -	\$ 2,161,051	\$ -	\$ -	\$ 3,183,739
Collectively evaluated for impairment	\$ 786,391,188	\$ 4,994,163	\$ 54,922,460	\$ 11,733,981	\$ 15,419,678	\$ 13,955,694	\$ 2,001,128	\$ 889,418,292
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 Nine Months Ended	
	<u>September 30, 2021</u>	September 30, 2020	<u>September 30, 2021</u>	September 30, 2020
Operating lease cost	\$ 19,271	\$ 17,966	\$ 55,294	\$ 31,504
Net lease cost	\$ 19,271	\$ 17,966	\$ 55,294	\$ 31,504

Other information related to leases was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	<u>September 30, 2021</u>	September 30, 2020	<u>September 30, 2021</u>	September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows for operating leases	\$ 19,739	\$ 12,293	\$ 56,311	\$ 14,273
Right-of-use assets obtained in exchange for new lease obligations:				
Operating leases	\$ 9,554	\$ 11,655	\$ 266,928	\$ 13,617

Lease term and discount rate are as follows:

Weighted average remaining lease term in years	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Operating leases	3.54	4.95
Weighted average discount rate		
Operating leases	2.43%	2.44%

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

	Operating Leases
2021	\$ 20,349
2022	81,337
2023	81,358
2024	82,990
2025	27,846
Thereafter	-
Total lease payments	293,880
Less: interest	12,327
Total	\$ 281,553

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:

Net investment in the lease	\$ <u>298,064</u>
Unguaranteed residual value of leased assets	\$ 272,898
Profit recognized at the commencement of the lease	\$ 12,636

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

	For the Three Months Ended	For the Nine Months Ended
	<u>September 30, 2021</u>	<u>September 30, 2021</u>
Interest income	\$ 1,887	\$ 3,854
Cash received for amounts included in the measurement of leased assets	\$ 15,000	\$ 32,630

## 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 September 30, 2021	As of December 31, 2020
Common equity tier 1 ratio	7.00%	14.12%	14.92%
Tier 1 capital ratio	8.50%	14.12%	14.92%
Total capital ratio	10.50%	14.47%	15.24%
Permanent capital ratio	7.00%	14.17%	14.97%
Non-risk-adjusted:			
Tier 1 leverage ratio	5.00%	14.48%	15.36%
UREE leverage ratio	1.50%	15.69%	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 September 30, 2021 and December 31, 2020, respectively:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
<b>September 30, 2021</b>				
Numerator:				
Unallocated retained earnings	137,333,630	137,333,630	137,333,630	137,333,630
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,142,832	2,142,832	2,142,832	2,142,832
Allowance for loan losses and reserve for credit losses subject to certain limitations			3,118,848	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(12,664,660)	(12,664,660)	(12,664,660)	(12,664,660)
Other regulatory required deductions	-	-	-	-
	<b>126,811,802</b>	<b>126,811,802</b>	<b>129,930,650</b>	<b>126,811,802</b>
Denominator:				
Risk-adjusted assets excluding allowance	910,491,820	910,491,820	910,491,820	910,491,820
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				(3,009,341)
	<b>897,827,160</b>	<b>897,827,160</b>	<b>897,827,160</b>	<b>894,817,819</b>
<b>December 31, 2020</b>				
Numerator:				
Unallocated retained earnings	132,991,905	132,991,905	132,991,905	132,991,905
Common Cooperative Equities:				
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)
	<b>123,846,345</b>	<b>123,846,345</b>	<b>126,487,756</b>	<b>123,846,345</b>
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)
	<b>829,950,510</b>	<b>829,950,510</b>	<b>829,950,510</b>	<b>827,408,000</b>

The components of the Association's non-risk-adjusted capital, based on 90-day average balances, were as follows on September 30, 2021 and December 31, 2020, respectively:

	September 30, 2021		December 31, 2020	
	Tier 1 leverage ratio	UREE leverage ratio	Tier 1 leverage ratio	UREE leverage ratio
Numerator:				
Unallocated retained earnings	137,333,630	137,333,630	132,991,905	132,991,905
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,142,832	-	2,098,803	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(12,664,660)	-	(11,244,363)	-
	<b>126,811,802</b>	<b>137,333,630</b>	<b>123,846,345</b>	<b>132,991,905</b>
Denominator:				
Total Assets	890,041,190	890,041,190	819,430,557	819,430,557
Regulatory Adjustments and Deductions:				
Regulatory deductions included in Tier 1 capital	(14,528,899)	(14,528,899)	(13,172,697)	(13,172,697)
	<b>875,512,291</b>	<b>875,512,291</b>	<b>806,257,860</b>	<b>806,257,860</b>

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

<b>Accumulated Other Comprehensive Income</b>		<b>September 30, 2021</b>
Nonpension postretirement benefits		<u>\$ 119,426</u>
<b>Total</b>		<u><b>\$ 119,426</b></u>
		September 30, 2020
Nonpension postretirement benefits		<u>\$ 140,005</u>
<b>Total</b>		<u><b>\$ 140,005</b></u>

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 Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income for the nine months ended September 30:

	<u>2021</u>	<u>2020</u>
Accumulated other comprehensive income at January 1	\$ 127,250	\$ 147,829
Amortization of prior service credits included in salaries and employee benefits	<u>(7,824)</u>	<u>(7,824)</u>
Other comprehensive loss, net of tax	<u>(7,824)</u>	<u>(7,824)</u>
Accumulated other comprehensive income at September 30	<u><b>\$ 119,426</b></u>	<u><b>\$ 140,005</b></u>

#### **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 recurring basis are summarized below:

<u>September 30, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans*	\$ -	\$ -	\$ -	\$ -	\$ -
Other property owned	-	-	<b>637,390</b>	<b>637,390</b>	<b>(11,766)</b>
<u>December 31, 2020</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
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 Association's 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 nine months ended September 30:

Nine months ended September 30:

	Other Benefits	
	2021	2020
Service cost	\$ 4,146	\$ 6,756
Interest cost	\$ 24,339	29,540
Amortization of prior service credits	\$ (7,824)	(7,824)
Net periodic benefit cost	<u>\$ 20,661</u>	<u>\$ 28,472</u>

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2021, was \$1,176,726 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 September 30, 2021, \$336,965 of contributions have been made. The Association presently anticipates contributing an additional \$112,321 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 November 2, 2021, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 2, 2021.