First South Farm Credit, ACA

THIRD QUARTER 2021

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CERTIFICATION

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

Jim F Martin III

James F. Martin III
Chairman of the Board

John W. Barnard
Chief Executive Officer

Sarah Lutz

Sarah Lutz
Chief Financial Officer

November 8, 2021

First South Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

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

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

John W. Barnard
Chief Executive Officer

Sarah Lutz
Chief Financial Officer

November 8, 2021

First South Farm Credit, ACA

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

(dollars in thousands)

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

COVID-19 OVERVIEW

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

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

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

COVID-19 Support Programs

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

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

- Pandemic Livestock Indemnity Program - provides financial assistance to support producers of eligible swine, chickens, and turkeys depopulated from March 1, 2020 through December 26, 2020. To be eligible, depopulation of poultry or livestock must have been due to insufficient processing access resulting from the COVID-19 pandemic;
- Pandemic Assistance for Timber Harvesters and Haulers Program - provides financial relief to timber harvesting and timber hauling businesses that experienced losses in 2020 due to COVID-19;
- Pandemic Cover Crop Program - for most insurance policies, provided premium support to producers who insured their spring crop and planted a qualifying cover crop during the 2021 crop year; and
- Specialty Crop Block Grant Program - funds innovative projects designed to support the expanding specialty crop food sector and explore new market opportunities for U.S. food and agricultural products.

The previously enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was amended by subsequent legislation, included the Paycheck Protection Program (PPP). The PPP provides support to small businesses to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States.

For a detailed discussion of programs enacted in 2020, see pages 7 and 38 of the 2020 Annual Report.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including poultry, soybeans, livestock and forestry. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

Comparison of September 30, 2021 to December 31, 2020

The gross loan volume of the Association as of September 30, 2021, was $2,729,694 as compared to $2,412,630 at December 31, 2020. Net loans outstanding at September 30, 2021, were $2,709,986 as compared to $2,395,099 at December 31, 2020. Net loans accounted for 95.76 percent of total assets at September 30, 2021, as compared to 94.34 percent of total assets at December 31, 2020.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans totaled $2,531 on September 30, 2021 as compared to $2,780 on December 31, 2020, a decrease of $249.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2021, was $19,708 compared to $17,531 at December 31, 2020, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2021

Net income for the three months ended September 30, 2021, totaled $11,067, as compared to $10,296 for the same period in 2020. The increase in net income primarily relates to an increase in net interest income due to increased loan volume and a decrease in the direct note rate. A more detailed explanation of other changes will be discussed below.

Noninterest income for the three months ended September 30, 2021 totaled $5,795 as compared to $5,532 for the same period of 2020, an increase of $263. The increase is primarily the result of an increase of $445 in patronage refunds offset by a decrease in loan fees of $231.

Noninterest expense for the three months ended September 30, 2021 increased $916 compared to the same period of 2020. The increase is attributable to increased salaries and employee benefits of $377, an increase in insurance fund premiums of $329, and an increase in other operating expenses of $188.

The Association recorded a provision for loan loss of $1,400 for the three months ended September 30, 2021 compared to $1,500 for the three months ended September 30, 2020. The Association recorded a provision for income taxes of $7 for the three months ended September 30, 2021, compared to no provision for income taxes for the same period of 2020.

For the nine months ended September 30, 2021

Net income for the nine months ended September 30, 2021, totaled $31,228, as compared to $28,859 for the same period in 2020, an increase of $2,369. The increase for the nine months ended September 30, 2021 are discussed in more detail below.

Net interest income after the provision for loan losses for the nine months ended September 30, 2021 increased $3,514 as compared to the same period in 2020. The increase in net interest income after the provision for loan losses was primarily the result of increased growth in the overall loan portfolio and reduced interest expense paid to AgFirst Farm Credit Bank.

Noninterest income for the nine months ended September 30, 2021, totaled $16,269 as compared to $15,366 for the same period of 2020, an increase of $903. The majority of the increase is attributable to an increase in loan fees of $219 and an increased patronage refunds from other Farm Credit institutions of $813. The above increases were offset by a decrease in insurance fund refunds of $425.

Noninterest expense for the nine months ended September 30, 2021, increased $2,031 compared to the same period of 2020. The increase in noninterest expense was due to an increase in salaries and employee benefits of $1,405, along with an increase of $1,140 in insurance fund premiums. The above increases were offset by a decrease of $343 in other operating expenses and a $160 change in gains on other property owned.

The Association recorded provision for loan losses of $2,640 for the nine months ended September 30, 2021, compared to a provision for loan losses of $3,000 for the same period in 2020. The Association also recorded a provision for income taxes of $13 for the nine month periods ended September 30, 2021 compared to a benefit for income taxes of $4 for the nine month periods ended September 30, 2020.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the AgFirst Farm Credit Bank (Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association’s credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2021 was $2,263,222 as compared to $1,983,378 at December 31, 2020, an increase of $279,844. The increase in notes payable from December 31, 2020 to September 30, 2021 is primarily related to loan growth within the portfolio.

CAPITAL RESOURCES

Total members' equity at September 30, 2021 and December 31, 2020 was $514,893 and $481,297, respectively. Allocated and unallocated retained earnings changes reflect the impact of normal earnings and patronage payments.

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

Ratio	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2021	Capital Ratios as of December 31, 2020
Risk-adjusted ratios:			
CET1 Capital	7.00%	16.55%	17.15%
Tier 1 Capital	8.50%	16.55%	17.15%
Total Capital	10.50%	17.21%	17.86%
Permanent Capital Ratio	7.00%	16.71%	17.34%
Non-risk-adjusted:			
Tier 1 Leverage Ratio	5.00%	16.94%	17.37%
UREE Leverage Ratio	1.50%	12.09%	12.01%

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

FUTURE OF LIBOR

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

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

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

The FCA has issued guidelines with similar guidance as the U.S. prudential regulators but applicable for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure, stop the inflow of new LIBOR volume, and adjust operating processes to implement alternative reference rates.

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

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

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

REGULATORY MATTERS

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

STOCKHOLDER INVESTMENT

Stockholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst Farm Credit Bank's Quarterly and Annual Reports are on the AgFirst website, *www.agfirst.com*, or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Copies of the Association's Annual and Quarterly reports are also on the Association's website, *www.firstsouthfarmcredit.com*, or may be obtained upon request free of charge by calling 1-800-955-1722 or writing Sarah Lutz, First South Farm Credit, ACA, 574 Highland Colony Parkway, Three Paragon Centre, Suite 100, Ridgeland, MS 39157. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

First South Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2021 *(unaudited)*	December 31, 2020 *(audited)*
Assets		
Cash	**$ 67**	$ 239
Loans	**2,729,694**	2,412,630
Allowance for loan losses	**(19,708)**	(17,531)
Net loans	**2,709,986**	2,395,099
Accrued interest receivable	**23,584**	20,818
Equity investments in other Farm Credit institutions	**66,735**	66,694
Premises and equipment, net	**14,066**	14,002
Other property owned	**2,012**	2,507
Accounts receivable	**12,118**	38,007
Other assets	**1,290**	1,477
Total assets	**$ 2,829,858**	$ 2,538,843
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 2,263,222**	$ 1,983,378
Accrued interest payable	**4,222**	4,012
Patronage refunds payable	**47**	21,198
Accounts payable	**4,499**	3,970
Other liabilities	**42,975**	44,988
Total liabilities	**2,314,965**	2,057,546
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**52,880**	52,326
Retained earnings		
Allocated	**256,357**	256,357
Unallocated	**234,232**	203,004
Accumulated other comprehensive income (loss)	**(28,576)**	(30,390)
Total members' equity	**514,893**	481,297
Total liabilities and members' equity	**$ 2,829,858**	$ 2,538,843

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

First South Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2021	2020	For the Nine Months Ended September 30, 2021	2020
Interest Income				
Loans	**$ 30,048**	$ 28,636	**$ 84,630**	$ 85,370
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**12,848**	12,767	**35,981**	39,875
Net interest income	**17,200**	15,869	**48,649**	45,495
Provision for loan losses	**1,400**	1,500	**2,640**	3,000
Net interest income after provision for loan losses	**15,800**	14,369	**46,009**	42,495
Noninterest Income				
Loan fees	**686**	917	**3,003**	2,784
Fees for financially related services	**470**	484	**603**	464
Patronage refunds from other Farm Credit institutions	**4,350**	3,905	**12,159**	11,346
Gains (losses) on sales of premises and equipment, net	**289**	226	**504**	347
Insurance Fund refunds	**—**	—	**—**	425
Total noninterest income	**5,795**	5,532	**16,269**	15,366
Noninterest Expense				
Salaries and employee benefits	**7,239**	6,862	**21,908**	20,503
Occupancy and equipment	**452**	447	**1,311**	1,322
Insurance Fund premiums	**847**	518	**2,358**	1,218
(Gains) losses on other property owned, net	**7**	(10)	**(83)**	77
Other operating expenses	**1,976**	1,788	**5,543**	5,886
Total noninterest expense	**10,521**	9,605	**31,037**	29,006
Income before income taxes	**11,074**	10,296	**31,241**	28,855
Provision (benefit) for income taxes	**7**	—	**13**	(4)
Net income	**$ 11,067**	$ 10,296	**$ 31,228**	$ 28,859
Other comprehensive income net of tax				
Employee benefit plans adjustments	**605**	542	**1,814**	1,626
Comprehensive income	**$ 11,672**	$ 10,838	**$ 33,042**	$ 30,485

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

First South Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2019	$ 51,819	$ 256,357	$ 162,731	$ (27,736)	$ 443,171
Comprehensive income			28,859	1,626	30,485
Capital stock/participation certificates issued/(retired), net	312				312
Balance at September 30, 2020	$ 52,131	$ 256,357	$ 191,590	$ (26,110)	$ 473,968
Balance at December 31, 2020	**$ 52,326**	**$ 256,357**	**$ 203,004**	**$ (30,390)**	**$ 481,297**
Comprehensive income			**31,228**	**1,814**	**33,042**
Capital stock/participation certificates issued/(retired), net	**554**				**554**
Balance at September 30, 2021	**$ 52,880**	**$ 256,357**	**$ 234,232**	**$ (28,576)**	**$ 514,893**

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

Accounting Standards Updates (ASUs) Issued During the Period and Applicable to the Association
There were no applicable Updates issued by the Financial Accounting Standards Board (FASB) during the period.

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

Potential effects of ASUs issued in previous periods:

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

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

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

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

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

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

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

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

- In August 2018, the FASB issued ASU 2018-14 Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this Update remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of certain disclosures, and add new disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the FASB's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements. The amendments are effective for fiscal years ending after December 15, 2020, for public business entities. Adoption of this guidance did not have a material impact on the statements of financial condition and results of operations.

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	September 30, 2021	December 31, 2020
Real estate mortgage	$ 2,138,887	$ 1,916,243
Production and intermediate-term	466,065	380,622
Loans to cooperatives	8,934	13,506
Processing and marketing	71,681	63,483
Farm-related business	23,227	21,522
Communication	3,719	2,754
Rural residential real estate	17,181	14,500
Total loans	$ 2,729,694	$ 2,412,630

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

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

September 30, 2021	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,873	$ 420	$ –	$ –	$ 11,343	$ –	$ 21,216	$ 420
Production and intermediate-term	7,520	30,326	124	–	250	–	7,894	30,326
Loans to cooperatives	8,966	–	–	–	–	–	8,966	–
Processing and marketing	19,553	24,649	12,536	–	10,233	–	42,322	24,649
Farm-related business	–	–	42	–	–	–	42	–
Communication	3,750	–	–	–	–	–	3,750	–
Rural residential real estate	–	–	–	–	38	–	38	–
Total	$ 49,662	$ 55,395	$ 12,702	$ –	$ 21,864	$ –	$ 84,228	$ 55,395

December 31, 2020	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 10,351	$ 13,781	$ –	$ –	$ 13,832	$ –	$ 24,183	$ 13,781
Production and intermediate-term	7,915	6,709	40	–	273	–	8,228	6,709
Loans to cooperatives	13,533	–	–	–	–	–	13,533	–
Processing and marketing	14,807	26,288	–	2,339	15,743	–	30,550	28,627
Communication	2,761	–	–	–	–	–	2,761	–
Rural residential real estate	–	–	–	–	39	–	39	–
Total	$ 49,367	$ 46,778	$ 40	$ 2,339	$ 29,887	$ –	$ 79,294	$ 49,117

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

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

	September 30, 2021	December 31, 2020
Real estate mortgage:		
Acceptable	97.88%	97.70%
OAEM	1.40	1.52
Substandard/doubtful/loss	0.72	0.78
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	91.19%	90.08%
OAEM	5.86	5.54
Substandard/doubtful/loss	2.95	4.38
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	93.86%
OAEM	–	6.14
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	September 30, 2021	December 31, 2020
Farm-related business:		
Acceptable	96.62%	100.00%
OAEM	3.38	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.57%	98.24%
OAEM	0.63	0.94
Substandard/doubtful/loss	0.80	0.82
	100.00%	100.00%
Total loans:		
Acceptable	96.80%	96.43%
OAEM	2.13	2.25
Substandard/doubtful/loss	1.07	1.32
	100.00%	100.00%

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

	September 30, 2021				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 2,955	$ 1,274	$ 4,229	$ 2,151,437	$ 2,155,666
Production and intermediate-term	651	79	730	471,271	472,001
Loans to cooperatives	–	–	–	8,938	8,938
Processing and marketing	–	–	–	72,101	72,101
Farm-related business	–	–	–	23,591	23,591
Communication	–	–	–	3,725	3,725
Rural residential real estate	–	–	–	17,256	17,256
Total	$ 3,606	$ 1,353	$ 4,959	$ 2,748,319	$ 2,753,278

	December 31, 2020				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 6,138	$ 1,004	$ 7,142	$ 1,924,532	$ 1,931,674
Production and intermediate-term	553	455	1,008	384,545	385,553
Loans to cooperatives	–	–	–	13,510	13,510
Processing and marketing	–	–	–	63,683	63,683
Farm-related business	–	–	–	21,707	21,707
Communication	–	–	–	2,754	2,754
Rural residential real estate	58	–	58	14,509	14,567
Total	$ 6,749	$ 1,459	$ 8,208	$ 2,425,240	$ 2,433,448

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

	September 30, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	$ 1,360	$ 1,124
Production and intermediate-term	1,171	1,656
Total	$ 2,531	$ 2,780
Accruing restructured loans:		
Real estate mortgage	$ 1,091	$ 1,121
Production and intermediate-term	392	460
Total	$ 1,483	$ 1,581
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 96	$ –
Total	$ 96	$ –
Total nonperforming loans	$ 4,110	$ 4,361
Other property owned	2,012	2,507
Total nonperforming assets	$ 6,122	$ 6,868
Nonaccrual loans as a percentage of total loans	0.09%	0.12%
Nonperforming assets as a percentage of total loans and other property owned	0.22%	0.28%
Nonperforming assets as a percentage of capital	1.19%	1.43%

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

	September 30, 2021	December 31, 2020
Impaired nonaccrual loans:		
Current as to principal and interest	$ 1,269	$ 1,255
Past due	1,262	1,525
Total	$ 2,531	$ 2,780
Impaired accrual loans:		
Restructured	$ 1,483	$ 1,581
90 days or more past due	96	–
Total	$ 1,579	$ 1,581
Total impaired loans	$ 4,110	$ 4,361
Additional commitments to lend	$ –	$ –

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

	September 30, 2021			Three Months Ended September 30, 2021		Nine Months Ended September 30, 2021	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:							
Production and intermediate-term	$ 54	$ 52	$ 31	$ 51	$ 1	$ 55	$ 6
Total	$ 54	$ 52	$ 31	$ 51	$ 1	$ 55	$ 6
With no related allowance for credit losses:							
Real estate mortgage	$ 2,547	$ 4,332	$ –	$ 2,410	$ 48	$ 2,588	$ 307
Production and intermediate-term	1,509	3,047	–	1,427	28	1,532	182
Total	$ 4,056	$ 7,379	$ –	$ 3,837	$ 76	$ 4,120	$ 489
Total impaired loans:							
Real estate mortgage	$ 2,547	$ 4,332	$ –	$ 2,410	$ 48	$ 2,588	$ 307
Production and intermediate-term	1,563	3,099	31	1,478	29	1,587	188
Total	$ 4,110	$ 7,431	$ 31	$ 3,888	$ 77	$ 4,175	$ 495

Impaired loans:	December 31, 2020 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2020 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Production and intermediate-term	$ 46	$ 46	$ 12	$ 68	$ 4
Total	$ 46	$ 46	$ 12	$ 68	$ 4
With no related allowance for credit losses:					
Real estate mortgage	$ 2,245	$ 4,154	$ –	$ 3,265	$ 172
Production and intermediate-term	2,070	3,313	–	3,011	159
Total	$ 4,315	$ 7,467	$ –	$ 6,276	$ 331
Total impaired loans:					
Real estate mortgage	$ 2,245	$ 4,154	$ –	$ 3,265	$ 172
Production and intermediate-term	2,116	3,359	12	3,079	163
Total	$ 4,361	$ 7,513	$ 12	$ 6,344	$ 335

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:							
Balance at June 30, 2021	$ 13,400	$ 4,041	$ 726	$ 16	$ –	$ 108	$ 18,291
Charge-offs	(19)	–	–	–	–	–	(19)
Recoveries	–	36	–	–	–	–	36
Provision for loan losses	1,370	76	(61)	7	–	8	1,400
Balance at September 30, 2021	$ 14,751	$ 4,153	$ 665	$ 23	$ –	$ 116	$ 19,708
Balance at December 31, 2020	$ 13,028	$ 3,727	$ 662	$ 17	$ –	$ 97	$ 17,531
Charge-offs	(493)	(10)	–	–	–	–	(503)
Recoveries	4	36	–	–	–	–	40
Provision for loan losses	2,212	400	3	6	–	19	2,640
Balance at September 30, 2021	$ 14,751	$ 4,153	$ 665	$ 23	$ –	$ 116	$ 19,708
Balance at June 30, 2020	$ 10,710	$ 4,189	$ 531	$ 77	$ 188	$ 72	$ 15,767
Charge-offs	–	–	–	–	–	–	–
Recoveries	52	–	–	–	–	–	52
Provision for loan losses	1,209	267	(6)	5	9	16	1,500
Balance at September 30, 2020	$ 11,971	$ 4,456	$ 525	$ 82	$ 197	$ 88	$ 17,319
Balance at December 31, 2019	$ 10,614	$ 3,646	$ 468	$ 35	$ 53	$ 67	$ 14,883
Charge-offs	(6)	(658)	–	–	–	–	(664)
Recoveries	52	48	–	–	–	–	100
Provision for loan losses	1,311	1,420	57	47	144	21	3,000
Balance at September 30, 2020	$ 11,971	$ 4,456	$ 525	$ 82	$ 197	$ 88	$ 17,319
Allowance on loans evaluated for impairment:							
Individually	$ –	$ 31	$ –	$ –	$ –	$ –	$ 31
Collectively	14,751	4,122	665	23	–	116	19,677
Balance at September 30, 2021	$ 14,751	$ 4,153	$ 665	$ 23	$ –	$ 116	$ 19,708
Individually	$ –	$ 12	$ –	$ –	$ –	$ –	$ 12
Collectively	13,028	3,715	662	17	–	97	17,519
Balance at December 31, 2020	$ 13,028	$ 3,727	$ 662	$ 17	$ –	$ 97	$ 17,531
Recorded investment in loans evaluated for impairment:							
Individually	$ 2,547	$ 1,563	$ –	$ –	$ –	$ –	$ 4,110
Collectively	2,153,119	470,438	104,630	3,725	–	17,256	2,749,168
Balance at September 30, 2021	$ 2,155,666	$ 472,001	$ 104,630	$ 3,725	$ –	$ 17,256	$ 2,753,278
Individually	$ 2,245	$ 2,116	$ –	$ –	$ –	$ –	$ 4,361
Collectively	1,929,429	383,437	98,900	2,754	–	14,567	2,429,087
Balance at December 31, 2020	$ 1,931,674	$ 385,553	$ 98,900	$ 2,754	$ –	$ 14,567	$ 2,433,448

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no new TDRs that occurred during the three and nine months ended September 30, 2021.

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

There was one TDR that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Real estate mortgage	$ 1,124	$ 1,162	$ 33	$ 41
Production and intermediate-term	612	734	220	275
Total loans	$ 1,736	$ 1,896	$ 253	$ 316
Additional commitments to lend	$ –	$ –		

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 8.82 percent of the issued stock of the Bank as of September 30, 2021 net of any reciprocal investment. As of that date, the Bank's assets totaled $37.9 billion and shareholders' equity totaled $2.7 billion. The Bank's earnings were $357 million for the first nine months of 2021. In addition, the Association held investments of $1,392 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Employee Benefit Plans:				
Balance at beginning of period	$ (29,181)	$ (26,652)	$ (30,390)	$ (27,736)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	605	542	1,814	1,626
Net current period other comprehensive income	605	542	1,814	1,626
Balance at end of period	$ (28,576)	$ (26,110)	$ (28,576)	$ (26,110)

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2021	2020	2021	2020	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (605)	$ (542)	$ (1,814)	$ (1,626)	See Note 7.
Net amounts reclassified	$ (605)	$ (542)	$ (1,814)	$ (1,626)	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	September 30, 2021				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 23	$ –	$ –	$ 23	$ 23
Other property owned	2,012	–	–	2,164	2,164
Nonrecurring Assets	$ 2,035	$ –	$ –	$ 2,187	$ 2,187
Other Financial Instruments					
Assets:					
Cash	$ 67	$ 67	$ –	$ –	$ 67
Loans	2,709,963	–	–	2,681,494	2,681,494
Other Financial Assets	$ 2,710,030	$ 67	$ –	$ 2,681,494	$ 2,681,561
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 2,263,222	$ –	$ –	$ 2,252,841	$ 2,252,841
Other Financial Liabilities	$ 2,263,222	$ –	$ –	$ 2,252,841	$ 2,252,841

	December 31, 2020									
		Total Carrying Amount		Level 1		Level 2		Level 3		Total Fair Value
<u>**Recurring Measurements**</u>										
Assets:										
Recurring Assets	$	–	$	–	$	–	$	–	$	–
Liabilities:										
Recurring Liabilities	$	–	$	–	$	–	$	–	$	–
<u>**Nonrecurring Measurements**</u>										
Assets:										
Impaired loans	$	34	$	–	$	–	$	34	$	34
Other property owned		2,507		–		–		2,757		2,757
Nonrecurring Assets	$	2,541	$	–	$	–	$	2,791	$	2,791
<u>**Other Financial Instruments**</u>										
Assets:										
Cash	$	239	$	239	$	–	$	–	$	239
Loans		2,395,065		–		–		2,412,593		2,412,593
Other Financial Assets	$	2,395,304	$	239	$	–	$	2,412,593	$	2,412,832
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	$	1,983,378	$	–	$	–	$	2,001,062	$	2,001,062
Other Financial Liabilities	$	1,983,378	$	–	$	–	$	2,001,062	$	2,001,062

Uncertainty in Measurements of Fair Value

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

		Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$	2,187	Appraisal	Income and expense	*
				Comparable sales	*
				Replacement cost	*
				Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Pension	$ 427	$ 578	$ 1,282	$ 1,733
401(k)	259	231	814	714
Other postretirement benefits	180	176	536	540
Total	$ 866	$ 985	$ 2,632	$ 2,987

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

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

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is remote that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Subsequent Events

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

On October 18, 2021, AgFirst's Board of Directors indicated an intention to declare, in December 2021, a special patronage distribution. The Association will receive between approximately $25,486 and $26,548 which will be recorded as patronage refunds from other Farm Credit institutions.