Farm Credit of Florida, ACA

THIRD QUARTER 2021

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2021 quarterly report of Farm Credit of Florida, 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.

Robert W. Teston
Chief Executive Officer

Laura Craker
Chief Financial Officer

W. Eric Hopkins
Chairman of the Board

November 8, 2021

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and 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 Consolidate 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.

Robert W. Teston
Chief Executive Officer

Laura Craker
Chief Financial Officer

November 8, 2021

Farm Credit of Florida, 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 Farm Credit of Florida, 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.

The Association obtains funding through a borrowing relationship with AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected by the financial condition and results of operations of the Bank.

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 majority of the Association has returned to pre-pandemic working conditions with some contingent of staff working remotely.

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

During 2020 and 2021, the Association made $7.7 million in PPP loans and recorded $185 thousand and $124 thousand in loan-related fee income in 2020 and 2021, respectively. At September 30, 2021, the Bank had purchased $7.7 million of these loans. In addition, through September 30, 2021, the volume of such loans that have received forgiveness from the SBA since the start of the program was $6.1 million.

For a detailed discussion of programs enacted in 2020, see pages 7 and 10 of the Association's 2020 Annual Report.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, farm-related businesses, and other agribusiness firms 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 in the northern and southern regions of Florida. The commodities include but are not limited to cattle, citrus, dairy, equine, field crops, nurseries, sugar, timber, tropical fruits, and vegetables.

On March 13, 2020, the United States Government proclaimed a national emergency due to the crisis related to COVID-19 which has significantly affected overall economic conditions. Shortly after, the State of Florida issued a statewide 'stay at home' order commencing on April 3, 2020 and ending April 30, 2020. A major component of the order was that all non-essential businesses and all schools were required to remain closed during this period, with most counties and municipalities electing to stay closed longer or reopen at a limited capacity. Some of the most affected non-agriculture businesses included tourism, hospitality and restaurants. The closing of restaurant and food service related businesses, along with school closings statewide, initially had significant effects on many fruit and vegetable growers as well as dairy producers. Cattle producers were also impacted by the extended restaurant closings in addition to the temporary closure and/or reduced capacity at several processing plants as they battled an increase of employee infections. In addition, spring sales for certain nursery growers were affected by shipping limitations to other states and countries as well as a reduction of social events resulting in order cancellations.

During the summer of 2021, there has been a resurgence in a variant of the virus, the Delta variant, with many states implementing mask-wearing and vaccine mandates and even reinstituting previous restrictions on certain businesses. While many industries have shown some signs of recovery following the reopening of non-essential businesses, others still face challenges within the supply chains in addition to other macroeconomic headwinds. Supply constraints have led to marked increases in the prices of many goods and services, pushing the CPI inflation rate up to more than 5%, the highest rate in roughly 13 years. Bottlenecks remain severe across supply chains. The number of ships awaiting anchor at the west coast ports hit a record high in September, while inventories remain exceptionally low. Consumer goods inflation has reached a 40+ year high as a result. The Florida unemployment rate was 5.0% at the end of August 2021, comparing favorably to the national average of 5.2%. Florida's unemployment rate rebounded after exceeding 14% earlier in 2020, however leisure and hospitality continue to trail other sectors in job recovery.

Beginning in early April 2020, management offered payment deferral programs and small new money advances to qualified borrowers affected by COVID-19 as part of a COVID-19 Borrower Relief Plan. The Plan also included loans originated under the SBA Paycheck Protection Program. These efforts yielded positive results as overall payment performance and credit quality has remained satisfactory over the last twelve months. Despite some stabilizing trends, management will continue monitoring the economic impacts that COVID-19 has on its borrowers and loan portfolio as some credit quality deterioration and credit losses are expected. Loss reduction options that are available for some of our customers, such as the use of loan guarantees, crop insurance, and federal disaster relief, will help mitigate the losses associated with COVID-19. Starting in early April 2020 and continuing throughout the first six months of 2021, the U.S. Congress passed numerous relief bills to offset some of the economic impact. The Coronavirus Food Assistance Program ("CFAP") administered by the United States Department of Agriculture has paid-out or approved over $24 billion to various agricultural industries as of June 2021. The Association is well capitalized and maintains adequate allowance for loan losses, which allows us to withstand stress in our loan portfolio.

Most commodity groups within the portfolio have experienced generally favorable operating results over the last two production seasons; however, citrus producers remain impacted by citrus greening disease while the dairy industry continues to be negatively impacted by prolonged commodity price declines. The various challenges from citrus greening disease has caused reduced production and declines in overall profitability for most producers. The final USDA production report indicates a 22% decrease in production for the 2020-2021 citrus crop, following a 6% decline the previous season. Despite these factors, the Association's citrus portfolio has continued to perform satisfactorily with performance issues isolated to only a few stressed growers. The dairy industry has also remained under stress due to supply and demand dynamics, in addition to the recent rise in feed costs. Most of the Association's dairy loans are to the fluid milk producers who have experienced depressed commodity prices for several years. While the declining price trend has shown signs of stabilizing, increasing feed costs has kept most producers below profitable levels. Due to these significant stresses, a large portion of the Association's dairy loan portfolio is criticized.

The horticultural or nursery segment remains strong as residential construction and the overall housing market continues to see increasing demand. The forestry industry has also experienced favorable conditions backed by an improving housing market, although global trade remains a concern. The beef cattle industry has seen declining price trends for several periods prior to stabilizing in late 2020 with some continued improvement year to date 2021 as processors work through the backlog of supply. Most cattle producers are expected to remain profitable, albeit below historical levels should feed costs remain elevated.

Farm size varies throughout the regions and many borrowers have diversified farming operations. This factor, along with numerous opportunities for non-farm income in the territory, reduces the level of repayment dependency on a single agricultural commodity. Florida has experienced typical weather patterns and no weather events have had a material

impact on borrowers over the past 12 months. Land values in the north region continue to exhibit stability since their improvement in 2014. Land values in the south region show stability with values increasing in more urban areas. Overall, land value sale surveys indicate land values are stable with increasing trends seen in certain segments.

The gross loan volume of the Association as of September 30, 2021, was $1,338,275, an increase of $6,725 or 0.51 percent as compared to $1,331,550 at December 31, 2020. Net loans outstanding at September 30, 2021, were $1,329,226 as compared to $1,321,507 at December 31, 2020, an increase of $7,719 or 0.58 percent. Net loans accounted for 97.03 percent of total assets at September 30, 2021, as compared to 96.08 percent of total assets at December 31, 2020. The increase in both gross and net loan volume during the period is primarily attributed to increased demand for credit in the market and a concerted marketing effort by Association lenders.

Competition continues to be strong in the large loan segment. Activity in small and middle market loans in the north region continues to be strong as well. Management has noted loan demand remains stable year to date 2021 in both the originated and the participations purchased loan portfolio. Management anticipates some continued draws on lines of credit over the balance of the year related to COVID-19 economic disruptions and increasing input costs, although funds from various government assistance programs could impact overall usage.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality declined compared to year end 2020 as a result of an increase in substandard non-accrual assets. During the third quarter 2021, the Association experienced deterioration in a large account within the tree fruits industry and was downgraded to substandard from OAEM. Acceptable and OAEM credit quality, as a percentage of the total loan portfolio, was 97.55 percent as of September 30, 2021 compared to 97.79 percent at December 31, 2020.

During the nine months of 2021, nonaccrual loans decreased by $2,181 or 26.62 percent to $6,012 at September 30, 2021 from $8,193 at December 31, 2020. The decrease in nonaccrual loans is primarily attributed to liquidations and curtailments received on nonaccrual loans. At September 30, 2021, there were no properties in other property owned as two pieces of equipment with a zero net carrying value were sold during 2021. Therefore, other property owned at September 30, 2021 remained at a zero balance since December 31, 2020.

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 $9,049 compared to $10,043 at December 31, 2020. This decrease is due to lower specific reserves required on impaired loans and lower reserves required from estimated economic impacts of COVID-19 in the current year compared to prior year. Recoveries of $602 recorded during the nine months ended September 30, 2021 were primarily in the non-farm income industry and charge-offs of $16 were mostly in the field crops industry. Management considers the current level of allowance adequate to cover additional possible losses. The ratio of the allowance for loan losses to gross loans at September 30, 2021 was 0.68 percent.

The allowance for loan losses at September 30, 2021 does not include $841 thousand of net purchase discounts related to acquired loans. The allowance for these loans was not carried forward at acquisition per accounting guidance. However, they were purchased at a net discount, which is the direct reduction to the recorded loan amount, to reflect the credit and market metrics related to the acquired portfolios. At September 30, 2021, the amount of credit risk reduction in addition to the allowance for loan losses, provided by these remaining discounts would equate to 0.06 percent of gross loans.

RESULTS OF OPERATIONS

For the three months ended September 30, 2021

The Association recorded net income for the three months ended September 30, 2021 of $6,482 as compared to $5,684 for the same period in 2020. This $798 or 14.04 percent increase is primarily attributed to an increase in noninterest income.

Reversal of allowance for loan losses was $200 for the three months ended September 30, 2021 as compared to a provision for loan losses of $74 during the same period in 2020, a decrease in expense of $274 or 370.27 percent. This decrease in expense is attributed to a decrease in specific reserves required and an increase in net recoveries compared to the same period in 2020. Prior year’s provision expense resulted from reserves needed for estimated economic impacts of COVID-19. Net loan recoveries were $53 during the three months ended September 30, 2021 compared to net loan recoveries of $32 for the same period in 2020, an increase in net loan recoveries of $21.

Net interest income was $8,765 for the three months ended September 30, 2021 as compared to $8,337 during the same period in 2020. The change in net interest income represents a $428 or 5.13 percent increase when compared to the same period last year and is attributed to higher interest from loan volume growth over the last 12 months.

Noninterest income for the three months ended September 30, 2021, totaled $3,858 as compared to $3,193 for the same period of 2020, an increase of $665 or 20.83 percent. This increase is attributed primarily to an increase in fees for financially related services.

Noninterest expense for the three months ended September 30, 2021, totaled $6,341 as compared to $5,772 for the same period of 2020, an increase of $569 or 9.86 percent. The primary reason for the increase in noninterest expense is attributed to $386 increase in salaries and employee benefits due to an

increase in the number of employees and $136 increase in insurance fund premiums resulting from an increase in the FCSIC insurance premium assessment rate.

For the nine months ended September 30, 2021

Net income for the nine months ended September 30, 2021 totaled $20,741 compared to $17,110 for the same period in 2020, an increase of $3,631 or 21.22 percent. The increase is primarily attributed to a decrease in provision for loan losses expense.

Reversal of allowance for loan losses was $1,580 for the nine months ended September 30, 2021 as compared to a provision for loan losses of $1,015 during the same period in 2020, a decrease in expense of $2,595 or 255.67 percent. This decrease in expense is attributed to a decrease in specific reserves required and an increase in net recoveries compared to the same period in 2020. Prior year's provision expense resulted from reserves needed for estimated economic impacts of COVID-19.

Net loan recoveries were $586 during the nine months ended September 30, 2021 compared to net loan recoveries of $161 for the same period in 2020, an increase in net loan recoveries of $425.

Net interest income increased $864 or 3.37 percent for the nine months ended September 30, 2021, as compared to the same period in 2020. This increase is attributed to loan volume growth over the last 12 months and more interest recoveries on nonaccrual loan liquidations offset by lower interest income on variable rate loans resulting from lowering of the target range for the federal funds rate by the Federal Reserve over the past 12 months.

Noninterest income for the nine months ended September 30, 2021, totaled $11,631 as compared to $9,713 for the same period of 2020, an increase of $1,918 or 19.75 percent. This increase is attributed primarily to an increase of $1,697 in fees for financially related services.

In 2020, the Association recorded $234 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest expense for the nine months ended September 30, 2021, increased $1,746 or 10.15 percent compared to the same period of 2020. The primary reason for the increase is attributed to $1,167 increase in salaries and employee benefits due to an increase in the number of employees and $557 increase in insurance fund premiums resulting from an increase in the FCSIC insurance premium assessment rate.

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses, and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. These funds are advanced by the Bank 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 $1,033,193 as compared to $1,048,130 at December 31, 2020. The decrease during the period of $14,937 is primarily attributed to an increase in members' equity resulting from net income for the nine months ended September 30, 2021 and receipt of 2020 patronage dividends due from AgFirst Farm Credit Bank during the period offset by an increase in loan volume during the period.

The Association had no lines of credit outstanding with third parties as of September 30, 2021.

CAPITAL RESOURCES

Total members' equity at September 30, 2021, increased to $318,025 from the December 31, 2020 total of $297,218. The increase is primarily attributed to net income during the period.

Total capital stock and participation certificates were $3,306 on September 30, 2021, compared to $3,248 on December 31, 2020. The increase is attributed to purchase of capital stock by members.

Regulatory Capital Ratios

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

	Regulatory Minimum, Including Buffer*	9/30/2021	12/31/2020	9/30/2020
Permanent Capital Ratio	7.00%	19.26%	18.99%	18.88%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	19.14%	18.87%	18.76%
Tier 1 Capital Ratio	8.50%	19.14%	18.87%	18.76%
Total Capital Ratio	10.50%	19.77%	19.56%	19.44%
Tier 1 Leverage Ratio	5.00%	21.88%	21.17%	21.22%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	17.75%	16.94%	16.93%

**Includes fully phased-in capital conservation buffers which became effective January 1, 2020.*

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. The requirements are based on regulatory ratios as defined by the FCA and include common equity tier 1 (CET1), tier 1, total capital, permanent capital, tier 1 leverage, and unallocated retained earnings (URE) and URE equivalents leverage ratios.

The permanent capital, CET1, tier 1, and total capital ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by a risk-adjusted asset base. Unlike these ratios, the tier 1 leverage and URE and URE equivalents leverage ratios do not incorporate any risk-adjusted weighting of assets. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. The tier 1 leverage and URE and URE equivalents leverage ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions.

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. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

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.

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 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.

OTHER MATTERS

During the third quarter of 2015, the Association entered into an agreement with and began providing certain standard and as-requested optional or negotiated services to Puerto Rico Farm Credit, ACA for a fee. These services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources, and loan on-boarding and servicing. The agreement is expected to leverage synergies and realize operating efficiencies and savings for both institutions. Both institutions are required to meet specified obligations under the agreement, which is automatically renewable for a one year term unless terminated by either institution with 180 days prior written notice or sooner if specified obligations are not satisfied.

After 44+ years with the Farm Credit System, Robert W. Teston, Chief Executive Officer, has announced his retirement effective March 31, 2022. The Board of Directors is currently seeking a CEO to lead this exciting, growing cooperative into the future.

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 $12,842 and $13,378 which will be recorded as patronage refunds from other Farm Credit institutions.

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 table below.

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.

Note: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request, free of charge, by calling (561)-965-9001, or writing Laura Craker, CFO, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421, or accessing the website, *www.farmcreditfl.com*. 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.

Farm Credit of Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)		September 30, 2021		December 31, 2020
		(unaudited)		*(audited)*
Assets				
Cash	**$**	**15**	$	14
Investments in debt securities:				
Held to maturity (fair value of $2,905 and $3,180, respectively)		**2,411**		2,589
Loans		**1,338,275**		1,331,550
Allowance for loan losses		**(9,049)**		(10,043)
Net loans		**1,329,226**		1,321,507
Loans held for sale		**—**		219
Accrued interest receivable		**6,705**		5,910
Equity investments in other Farm Credit institutions		**14,964**		14,991
Premises and equipment, net		**8,419**		8,524
Accounts receivable		**7,173**		20,995
Other assets		**1,004**		746
Total assets	**$**	**1,369,917**	$	1,375,495
Liabilities				
Notes payable to AgFirst Farm Credit Bank	**$**	**1,033,193**	$	1,048,130
Accrued interest payable		**2,015**		2,057
Patronage refunds payable		**323**		14,816
Accounts payable		**4,997**		3,372
Advanced conditional payments		**2,764**		2,792
Other liabilities		**8,600**		7,110
Total liabilities		**1,051,892**		1,078,277
Commitments and contingencies (Note 8)				
Members' Equity				
Protected borrower stock		**445**		445
Capital stock and participation certificates		**2,861**		2,803
Additional paid-in-capital		**7,873**		7,873
Retained earnings				
Allocated		**129,182**		127,974
Unallocated		**177,914**		158,384
Accumulated other comprehensive income (loss)		**(250)**		(261)
Total members' equity		**318,025**		297,218
Total liabilities and members' equity	**$**	**1,369,917**	$	1,375,495

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

Farm Credit of Florida, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2021	For the Three Months Ended September 30, 2020	For the Nine Months Ended September 30, 2021	For the Nine Months Ended September 30, 2020
Interest Income				
Loans	**$ 14,876**	$ 14,592	**$ 44,766**	$ 46,239
Investments	**28**	31	**86**	100
Total interest income	**14,904**	14,623	**44,852**	46,339
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**6,139**	6,286	**18,373**	20,724
Net interest income	**8,765**	8,337	**26,479**	25,615
Provision for (reversal of allowance for) loan losses	**(200)**	74	**(1,580)**	1,015
Net interest income after provision for (reversal of allowance for) loan losses	**8,965**	8,263	**28,059**	24,600
Noninterest Income				
Loan fees	**302**	312	**998**	1,096
Fees for financially related services	**952**	362	**2,778**	1,081
Lease income	**12**	12	**35**	35
Patronage refunds from other Farm Credit institutions	**2,271**	2,192	**6,880**	6,704
Gains (losses) on sales of rural home loans, net	**180**	167	**547**	342
Gains (losses) on sales of premises and equipment, net	**42**	4	**82**	57
Gains (losses) on other transactions	**4**	42	**35**	(136)
Insurance Fund refunds	**—**	—	**—**	234
Other noninterest income	**95**	102	**276**	300
Total noninterest income	**3,858**	3,193	**11,631**	9,713
Noninterest Expense				
Salaries and employee benefits	**4,600**	4,214	**13,860**	12,693
Occupancy and equipment	**308**	298	**938**	871
Insurance Fund premiums	**410**	274	**1,232**	675
(Gains) losses on other property owned, net	**—**	(6)	**(27)**	(50)
Other operating expenses	**1,023**	992	**2,946**	3,014
Total noninterest expense	**6,341**	5,772	**18,949**	17,203
Net income	**$ 6,482**	$ 5,684	**$ 20,741**	$ 17,110
Other comprehensive income net of tax				
Employee benefit plans adjustments	**4**	4	**11**	9
Comprehensive income	**$ 6,486**	$ 5,688	**$ 20,752**	$ 17,119

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

Farm Credit of Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
				Allocated	Unallocated		
Balance at December 31, 2019	$ 445	$ 2,633	$ 7,873	$ 121,989	$ 146,634	$ (240)	$ 279,334
Comprehensive income					17,110	9	17,119
Capital stock/participation certificates issued/(retired), net		44					44
Patronage distribution adjustment				1,029	(1,031)		(2)
Balance at September 30, 2020	$ 445	$ 2,677	$ 7,873	$ 123,018	$ 162,713	$ (231)	$ 296,495
Balance at December 31, 2020	**$ 445**	**$ 2,803**	**$ 7,873**	**$ 127,974**	**$ 158,384**	**$ (261)**	**$ 297,218**
Comprehensive income					**20,741**	**11**	**20,752**
Capital stock/participation certificates issued/(retired), net		**58**					**58**
Patronage distribution adjustment				**1,208**	**(1,211)**		**(3)**
Balance at September 30, 2021	**$ 445**	**$ 2,861**	**$ 7,873**	**$ 129,182**	**$ 177,914**	**$ (250)**	**$ 318,025**

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

Farm Credit of Florida, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

(unaudited)

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

Organization

The accompanying financial statements include the accounts of Farm Credit of Florida, 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.

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	$ 805,268	$ 786,779
Production and intermediate-term	206,588	230,625
Loans to cooperatives	35,898	35,984
Processing and marketing	140,700	132,886
Farm-related business	35,072	36,316
Communication	56,166	57,207
Power and water/waste disposal	24,340	20,262
Rural residential real estate	17,895	13,571
International	11,023	12,332
Other (including Mission Related)	5,325	5,588
Total loans	$ 1,338,275	$ 1,331,550

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	$ 28,455	$ 97,746	$ 564	$ –	$ –	$ –	$ 29,019	$ 97,746
Production and intermediate-term	48,660	15,403	1,659	252	1,821	–	52,140	15,655
Loans to cooperatives	33,930	–	2,055	–	–	–	35,985	–
Processing and marketing	114,815	48,500	2,996	72,544	–	–	117,811	121,044
Farm-related business	–	11,449	2,193	647	640	–	2,833	12,096
Communication	56,167	–	–	–	–	–	56,167	–
Power and water/waste disposal	24,416	–	–	–	–	–	24,416	–
International	11,035	–	–	–	–	–	11,035	–
Other (including Mission Related)	–	–	–	–	3,104	–	3,104	–
Total	$ 317,478	$ 173,098	$ 9,467	$ 73,443	$ 5,565	$ –	$ 332,510	$ 246,541

	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	$ 32,953	$ 126,826	$ 671	$ –	$ –	$ –	$ 33,624	$ 126,826
Production and intermediate-term	51,753	6,120	6,413	–	2,118	–	60,284	6,120
Loans to cooperatives	32,186	–	3,834	–	–	–	36,020	–
Processing and marketing	114,467	47,582	4,542	86,612	–	–	119,009	134,194
Farm-related business	–	15,947	2,054	707	771	–	2,825	16,654
Communication	57,190	–	–	–	–	–	57,190	–
Power and water/waste disposal	20,347	–	–	–	–	–	20,347	–
International	12,350	–	–	–	–	–	12,350	–
Other (including Mission Related)	–	–	–	–	3,274	–	3,274	–
Total	$ 321,246	$ 196,475	$ 17,514	$ 87,319	$ 6,163	$ –	$ 344,923	$ 283,794

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	95.13%	94.72%
OAEM	2.57	2.63
Substandard/doubtful/loss	2.30	2.65
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	89.78%	94.35%
OAEM	5.30	3.31
Substandard/doubtful/loss	4.92	2.34
	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%	97.11%
OAEM	–	2.89
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	82.60%	84.08%
OAEM	5.96	7.39
Substandard/doubtful/loss	11.44	8.53
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Power and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.47%	99.12%
OAEM	0.07	0.12
Substandard/doubtful/loss	0.46	0.76
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related)		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	95.03%	95.17%
OAEM	2.52	2.62
Substandard/doubtful/loss	2.45	2.21
	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	$ 1,814	$ 1,646	$ 3,460	$ 806,730	$ 810,190
Production and intermediate-term	174	28	202	207,330	207,532
Loans to cooperatives	–	–	–	35,919	35,919
Processing and marketing	–	–	–	141,182	141,182
Farm-related business	–	–	–	35,198	35,198
Communication	–	–	–	56,182	56,182
Power and water/waste disposal	–	–	–	24,352	24,352
Rural residential real estate	–	–	–	17,973	17,973
International	–	–	–	11,050	11,050
Other (including Mission Related)	–	–	–	5,359	5,359
Total	$ 1,988	$ 1,674	$ 3,662	$ 1,341,275	$ 1,344,937

	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	$ 3,892	$ 2,636	$ 6,528	$ 784,536	$ 791,064
Production and intermediate-term	830	1,855	2,685	228,750	231,435
Loans to cooperatives	–	–	–	36,030	36,030
Processing and marketing	–	–	–	133,395	133,395
Farm-related business	–	–	–	36,406	36,406
Communication	–	–	–	57,210	57,210
Power and water/waste disposal	–	–	–	20,273	20,273
Rural residential real estate	–	–	–	13,606	13,606
International	–	–	–	12,360	12,360
Other (including Mission Related)	–	–	–	5,660	5,660
Total	$ 4,722	$ 4,491	$ 9,213	$ 1,328,226	$ 1,337,439

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	$ 3,743	$ 5,288
Production and intermediate-term	1,944	2,559
Farm-related business	242	242
Rural residential real estate	83	104
Total	$ 6,012	$ 8,193
Accruing restructured loans:		
Real estate mortgage	$ 546	$ 808
Production and intermediate-term	81	81
Total	$ 627	$ 889
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 6,639	$ 9,082
Other property owned	–	–
Total nonperforming assets	$ 6,639	$ 9,082
Nonaccrual loans as a percentage of total loans	0.45%	0.62%
Nonperforming assets as a percentage of total loans and other property owned	0.50%	0.68%
Nonperforming assets as a percentage of capital	2.09%	3.06%

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	$ 4,303	$ 3,201
Past due	1,709	4,992
Total	$ 6,012	$ 8,193
Impaired accrual loans:		
Restructured	$ 627	$ 889
90 days or more past due	–	–
Total	$ 627	$ 889
Total impaired loans	$ 6,639	$ 9,082
Additional commitments to lend	$ 5	$ 95

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:							
Real estate mortgage	$ 1,511	$ 1,652	$ 281	$ 1,795	$ 67	$ 1,901	$ 323
Production and intermediate-term	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 1,511	$ 1,652	$ 281	$ 1,795	$ 67	$ 1,901	$ 323
With no related allowance for credit losses:							
Real estate mortgage	$ 2,778	$ 5,835	$ –	$ 3,300	$ 122	$ 3,495	$ 593
Production and intermediate-term	2,025	3,271	–	2,405	89	2,546	433
Farm-related business	242	256	–	287	11	304	52
Rural residential real estate	83	273	–	98	4	104	18
Total	$ 5,128	$ 9,635	$ –	$ 6,090	$ 226	$ 6,449	$ 1,096
Total impaired loans:							
Real estate mortgage	$ 4,289	$ 7,487	$ 281	$ 5,095	$ 189	$ 5,396	$ 916
Production and intermediate-term	2,025	3,271	–	2,405	89	2,546	433
Farm-related business	242	256	–	287	11	304	52
Rural residential real estate	83	273	–	98	4	104	18
Total	$ 6,639	$ 11,287	$ 281	$ 7,885	$ 293	$ 8,350	$ 1,419

	December 31, 2020			Year Ended December 31, 2020	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 2,060	$ 2,139	$ 538	$ 2,084	$ 228
Production and intermediate-term	1,708	4,433	471	1,728	189
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 3,768	$ 6,572	$ 1,009	$ 3,812	$ 417
With no related allowance for credit losses:					
Real estate mortgage	$ 4,036	$ 8,239	$ –	$ 4,084	$ 446
Production and intermediate-term	932	1,996	–	943	103
Farm-related business	242	267	–	245	27
Rural residential real estate	104	334	–	105	12
Total	$ 5,314	$ 10,836	$ –	$ 5,377	$ 588
Total impaired loans:					
Real estate mortgage	$ 6,096	$ 10,378	$ 538	$ 6,168	$ 674
Production and intermediate-term	2,640	6,429	471	2,671	292
Farm-related business	242	267	–	245	27
Rural residential real estate	104	334	–	105	12
Total	$ 9,082	$ 17,408	$ 1,009	$ 9,189	$ 1,005

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	International	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:									
Balance at June 30, 2021	$ 4,074	$ 3,263	$ 1,456	$ 197	$ 112	$ 80	$ 13	$ 1	$ 9,196
Charge-offs	–	–	–	–	–	–	–	–	–
Recoveries	53	–	–	–	–	–	–	–	53
Provision for loan losses	(485)	389	(61)	(44)	7	(2)	(4)	–	(200)
Balance at September 30, 2021	$ 3,642	$ 3,652	$ 1,395	$ 153	$ 119	$ 78	$ 9	$ 1	$ 9,049
Balance at December 31, 2020	$ 4,414	$ 3,682	$ 1,562	$ 155	$ 145	$ 74	$ 10	$ 1	$ 10,043
Charge-offs	–	(16)	–	–	–	–	–	–	(16)
Recoveries	407	194	–	–	–	1	–	–	602
Provision for loan losses	(1,179)	(208)	(167)	(2)	(26)	3	(1)	–	(1,580)
Balance at September 30, 2021	$ 3,642	$ 3,652	$ 1,395	$ 153	$ 119	$ 78	$ 9	$ 1	$ 9,049
Balance at June 30, 2020	$ 3,786	$ 3,300	$ 1,492	$ 151	$ 582	$ 70	$ 9	$ 1	$ 9,391
Charge-offs	–	(49)	–	–	–	–	–	–	(49)
Recoveries	66	14	–	–	–	1	–	–	81
Provision for loan losses	(83)	25	133	(1)	(1)	1	–	–	74
Balance at September 30, 2020	$ 3,769	$ 3,290	$ 1,625	$ 150	$ 581	$ 72	$ 9	$ 1	$ 9,497
Balance at December 31, 2019	$ 3,307	$ 3,223	$ 1,388	$ 140	$ 187	$ 67	$ 8	$ 1	$ 8,321
Charge-offs	–	(115)	–	–	–	–	–	–	(115)
Recoveries	190	70	12	–	–	4	–	–	276
Provision for loan losses	272	112	225	10	394	1	1	–	1,015
Balance at September 30, 2020	$ 3,769	$ 3,290	$ 1,625	$ 150	$ 581	$ 72	$ 9	$ 1	$ 9,497
Allowance on loans evaluated for impairment:									
Individually	$ 281	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 281
Collectively	3,361	3,652	1,395	153	119	78	9	1	8,768
PCI**	–	–	–	–	–	–	–	–	–
Balance at September 30, 2021	$ 3,642	$ 3,652	$ 1,395	$ 153	$ 119	$ 78	$ 9	$ 1	$ 9,049
Individually	$ 538	$ 471	$ –	$ –	$ –	$ –	$ –	$ –	$ 1,009
Collectively	3,876	3,211	1,562	155	145	74	10	1	9,034
PCI**	–	–	–	–	–	–	–	–	–
Balance at December 31, 2020	$ 4,414	$ 3,682	$ 1,562	$ 155	$ 145	$ 74	$ 10	$ 1	$ 10,043
Recorded investment in loans evaluated for impairment:									
Individually	$ 4,100	$ 2,025	$ 242	$ –	$ –	$ 83	$ –	$ –	$ 6,450
Collectively	805,665	205,507	212,057	56,182	24,352	17,890	11,050	5,359	1,338,062
PCI**	425	–	–	–	–	–	–	–	425
Balance at September 30, 2021	$ 810,190	$ 207,532	$ 212,299	$ 56,182	$ 24,352	$ 17,973	$ 11,050	$ 5,359	$ 1,344,937
Individually	$ 5,848	$ 2,640	$ 242	$ –	$ –	$ 104	$ –	$ –	$ 8,834
Collectively	784,648	228,795	205,589	57,210	20,273	13,502	12,360	5,660	1,328,037
PCI**	568	–	–	–	–	–	–	–	568
Balance at December 31, 2020	$ 791,064	$ 231,435	$ 205,831	$ 57,210	$ 20,273	$ 13,606	$ 12,360	$ 5,660	$ 1,337,439

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following table presents additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs that occurred during the three and nine months ended September 30, 2021.

	Three Months Ended September 30, 2020				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 2,691	$ –	$ 2,691	
Total	$ –	$ 2,691	$ –	$ 2,691	
Post-modification:					
Real estate mortgage	$ –	$ 2,691	$ –	$ 2,691	$ –
Total	$ –	$ 2,691	$ –	$ 2,691	$ –

	Nine Months Ended September 30, 2020				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 29	$ 2,691	$ –	$ 2,720	
Total	$ 29	$ 2,691	$ –	$ 2,720	
Post-modification:					
Real estate mortgage	$ 30	$ 2,691	$ –	$ 2,721	$ (65)
Total	$ 30	$ 2,691	$ –	$ 2,721	$ (65)

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

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Defaulted troubled debt restructurings:	2021	2020	2021	2020
Real estate mortgage	$ –	$ 2,162	$ –	$ 2,162
Total	$ –	$ 2,162	$ –	$ 2,162

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	$ 2,187	$ 3,975	$ 1,641	$ 3,167
Production and intermediate-term	1,067	84	986	3
Farm-related business	242	242	242	242
Rural residential real estate	1	1	1	1
Total loans	$ 3,497	$ 4,302	$ 2,870	$ 3,413
Additional commitments to lend	$ –	$ –		

Purchased Credit Impaired (PCI) Loans

For further discussion of the Association's accounting for PCI loans, see Note 2, *Summary of Significant Accounting Policies*, from the Association's most recent Annual Report.

The carrying amounts of loans acquired in a 2011 business combination included in the balance sheet amounts of loans receivable at period end were as follows:

	September 30, 2021
Real estate mortgage	$ 425
Total loans	$ 425

There was no allowance for loan losses related to these loans at September 30, 2021 or December 31, 2020. During the three and nine months ended September 30, 2021, provision for loan losses on these loans was an expense reversal of $17 and $72, respectively, compared with an expense reversal of $17 and $48 for the same periods in 2020. See above for a summary of changes in the total allowance for loan losses for the three and nine month periods ended September 30, 2021. There were no loans acquired during 2021 or 2020 for which it was probable at acquisition that all contractually required payments would not be collected.

Certain of the loans acquired by the Association in the 2011 business combination that were within the scope of PCI loan guidance are accounted for using a cash basis method of income recognition because the Association cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. The real estate market in Florida was extremely unstable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the Association did not have the information necessary to reasonably estimate cash flows expected to be collected to compute a yield.

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

The Association's investments also consist of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to the FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At September 30, 2021, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	September 30, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,560	$ 517	$ –	$ 2,077	5.77%
ABSs	851	7	(30)	828	0.61
Total	$ 2,411	$ 524	$ (30)	$ 2,905	3.95%

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,556	$ 624	$ –	$ 2,180	5.77%
ABSs	1,033	2	(35)	1,000	0.73
Total	$ 2,589	$ 626	$ (35)	$ 3,180	3.76%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	September 30, 2021		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	169	160	-1.08
After five years through ten years	223	211	0.16
After ten years	2,019	2,534	4.79
Total	$ 2,411	$ 2,905	3.95%

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	September 30, 2021			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ –	$ –	$ 667	$ (30)

	December 31, 2020			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 19	$ –	$ 821	$ (35)

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

A substantial portion of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

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 4.86 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 $1,867 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 and the contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

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

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Employee Benefit Plans:				
Balance at beginning of period	$ (254)	$ (235)	$ (261)	$ (240)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	4	4	11	9
Net current period other comprehensive income	4	4	11	9
Balance at end of period	$ (250)	$ (231)	$ (250)	$ (231)

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

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (4)	$ (4)	$ (11)	$ (9)	See Note 7.
Net amounts reclassified	$ (4)	$ (4)	$ (11)	$ (9)	

(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:					
Assets held in trust funds	$ 675	$ 675	$ –	$ –	$ 675
Recurring Assets	$ 675	$ 675	$ –	$ –	$ 675
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,230	$ –	$ –	$ 1,230	$ 1,230
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 1,230	$ –	$ –	$ 1,230	$ 1,230
Other Financial Instruments					
Assets:					
Cash	$ 15	$ 15	$ –	$ –	$ 15
RABs	1,560	–	–	2,077	2,077
ABSs	851	–	828	–	828
Loans	1,327,996	–	–	1,334,249	1,334,249
Other Financial Assets	$ 1,330,422	$ 15	$ 828	$ 1,336,326	$ 1,337,169
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,033,193	$ –	$ –	$ 1,036,721	$ 1,036,721
Other Financial Liabilities	$ 1,033,193	$ –	$ –	$ 1,036,721	$ 1,036,721

	December 31, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 505	$ 505	$ –	$ –	$ 505
Recurring Assets	$ 505	$ 505	$ –	$ –	$ 505
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 2,759	$ –	$ –	$ 2,759	$ 2,759
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 2,759	$ –	$ –	$ 2,759	$ 2,759
Other Financial Instruments					
Assets:					
Cash	$ 14	$ 14	$ –	$ –	$ 14
RABs	1,556	–	–	2,180	2,180
ABSs	1,033	–	1,000	–	1,000
Loans	1,318,967	–	–	1,335,286	1,335,286
Other Financial Assets	$ 1,321,570	$ 14	$ 1,000	$ 1,337,466	$ 1,338,480
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,048,130	$ –	$ –	$ 1,061,396	$ 1,061,396
Other Financial Liabilities	$ 1,048,130	$ –	$ –	$ 1,061,396	$ 1,061,396

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.

Investments in Debt Securities

The fair values of predominantly all Level 3 investments in debt securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities. These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Inputs to Valuation Techniques

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

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss 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	$ 1,230	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
RABs	Discounted cash flow	Prepayment rates Risk-adjusted discount rate
ABSs	Vendor priced	**
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

*** The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

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	$ 641	$ 528	$ 1,923	$ 1,586
401(k)	248	223	747	657
Other postretirement benefits	110	109	327	304
Total	$ 999	$ 860	$ 2,997	$ 2,547

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 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 $12,842 and $13,378 which will be recorded as patronage refunds from other Farm Credit institutions.