
Colonial Farm Credit, ACA

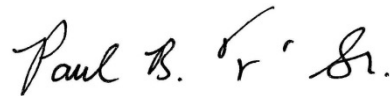
THIRD QUARTER 2021

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CERTIFICATION

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



Paul B. Franklin, Sr.
Chief Executive Officer



Diane S. Fowlkes
Chief Financial Officer



A. Kevin Monahan
Chairman of the Board

November 8, 2021

Colonial 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.

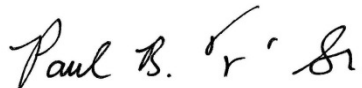
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions 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.



A. Kevin Monahan
Chairman of the Board



Paul B. Franklin, Sr.
Chief Executive Officer



Diane S. Fowlkes
Chief Financial Officer

November 8, 2021

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 *Colonial 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. As the state eased the "stay at home" restrictions, the Association has taken steps to re-staff offices at roughly 50% capacity, while following standard safety protocols such as mask requirements, social distancing, and enhanced cleaning.

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.

In this regard, the Association will adjust its business continuity plan to maintain the most effective and efficient business operations while safeguarding the health and safety of employees. In addition, the Association continues to work with borrowers to offer appropriate solutions to meet their operating and liquidity needs.

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

As of September 30, 2021, the Association had \$1.3 million of PPP loans outstanding. These loans have been purchased from the Association by AgFirst Farm Credit Bank (AgFirst or

Bank). The Association has recorded \$407 thousand in fee income during 2021 from PPP loans. In addition, through September 30, 2021, the volume of loans that have received forgiveness from the SBA since the start of the program was \$3.3 million.

For a detailed discussion of programs enacted in 2020, see pages 7 and 8 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 livestock operations such as beef cattle, horses, poultry, swine, and dairy farms and various field crops such as soybeans, peanuts, tobacco, cotton, and corn. Other predominant commodities in the portfolio are timber and rural home loans. 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, has somewhat reduced the level of dependency on any single commodity.

The gross loan volume of the Association as of September 30, 2021 was \$743,914, an increase of \$21,180, compared to \$722,734 at December 31, 2020. Net loans outstanding at September 30, 2021 were \$741,249 compared to \$720,138 at December 31, 2020. Net loans accounted for 97.5 percent of total assets at September 30, 2021, compared to 96.6 percent of total assets at December 31, 2020. The increase in gross and net loan volume during the reporting period was due to the normal seasonal increase in working capital loans to farmers as well as an increase in real estate lending activity.

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 decreased from \$1,122 at December 31, 2020 to \$953 at September 30, 2021. This decrease was primarily the result of repayments and several loans paid in full.

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 \$2,665 compared to \$2,596 at December 31, 2020. The September 30, 2021 allowance for loan losses was considered by management to be adequate to cover probable losses. A reserve for undisbursed commitments on operating lines for grain producers is also maintained as a liability on the Consolidated Balance Sheet. This reserve was decreased by \$77 during the quarter ended September 30, 2021. This reserve is at a conservative level and best estimate, as it recognizes both the

stress in the row crop segment and the controls in place that make undisbursed commitments less risky than drawn funds.

RESULTS OF OPERATIONS

For the three months ended September 30, 2021

Net income for the three months ended September 30, 2021 totaled \$3,644, a decrease of \$44 compared to \$3,600 for the same period in 2020. This decrease was attributable to an increase in noninterest expense, partially offset by an increase in noninterest income.

Net interest income increased by \$456 for the three months ended September 30, 2021, compared to the same period in 2020. Interest income increased by \$353 primarily due to higher volume and interest from nonaccrual loans. The increase in interest income from nonaccrual loans was \$266 for the three months ended September 30, 2021 compared to the same period in 2020. Total interest expense decreased by \$103 due to the lower cost of funds from the direct note with AgFirst.

The Association recorded a provision to the allowance for loan losses of \$143 for the three months ended September 30, 2021 compared to a provision of \$118 for the three months ended September 30, 2020. These provisions for loan losses were primarily due to normal seasonal increase in short term lines of credit and steady real estate loan demand.

Noninterest income for the three months ended September 30, 2021 totaled \$1,370, compared to \$1,363 for the same period of 2020, an increase of \$7. The increase was primarily attributable to an increase patronage refunds from the Bank.

Noninterest expense for the three months ended September 30, 2021 totaled \$3,479, compared to \$3,088 for the same period of 2020, an increase of \$391. The increase was the result of increased salaries and employee benefits expenses and higher insurance fund premiums.

For the nine months ended September 30, 2021

Net income for the nine months ended September 30, 2021 totaled \$10,532 as compared to \$10,651 for the same period in 2020, a decrease of \$119. This decrease was due to an increase in noninterest expense, nearly offset by an increase in net interest income and noninterest income.

At September 30, 2021, net interest income increased by \$379 or 2.3 percent compared to September 30, 2020. Interest income on accruing loans decreased by \$562 and interest expense decreased by \$879, due to lower interest rates. Additionally, the Association recorded \$84 more interest on nonaccrual loans for the nine months ended September 30, 2021 compared to the same period in 2020.

The Association recorded a provision for loan losses of \$53 for the nine months ended September 30, 2021, compared to \$234 for the same period in 2020, a difference of \$181. The provision for the nine months ended September 30, 2021 was due to higher loan volume. The provision for loan losses in 2020 was related to an increase in overall portfolio volume as well as an increase in the allowance for loan losses due to risk associated with the economic impact of COVID-19.

Noninterest income for the nine months ended September 30, 2021 increased by \$349 compared to the same period of 2020. The primary cause for the increase was the receipt of fee income from PPP loans in 2021.

Noninterest expense for the nine months ended September 30, 2021 increased by \$1,033 compared to the same period of 2020. The increase in noninterest expense was primarily attributable to an increase in salaries and employee benefits, and Insurance Fund premiums in 2021.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with 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. The Bank advances funds to the Association in the form of notes payable. There are separate notes payable for variable rate and fixed rate products. The variable rate note is utilized by the Association to fund variable rate loan advances and operating fund 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 \$551,418, compared to \$529,440 at December 31, 2020. The increase in notes payable of \$21,978 was primarily the result of increased loan volume through September 30, 2021.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2020, nor are any anticipated for 2021 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at September 30, 2021 increased to \$201,451 from the December 31, 2020 total of \$190,749. The increase was primarily attributable to current year's net income.

Total capital stock and participation certificates were \$5,625 on September 30, 2021 compared to \$5,520 on December 31, 2020. The increase of \$105 was attributable to stock and participation certificates issued.

FCA set minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced existing core surplus and total surplus ratios with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios. The new regulations also replaced the existing net collateral ratio with a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The current permanent capital ratio (PCR) remains in effect.

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

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

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater

than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in

other System institutions, divided by PCR risk-adjusted assets.

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

The following sets forth the regulatory capital ratios, which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2021
Risk-adjusted ratios:				
CET1 Capital	4.5%	2.5%	7.0%	24.41%
Tier 1 Capital	6.0%	2.5%	8.5%	24.41%
Total Capital	8.0%	2.5%	10.5%	24.77%
Permanent Capital Ratio	7.0%	0.0%	7.00%	24.49%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.00%	26.07%
UREE Leverage Ratio	1.5%	0.0%	1.50%	26.03%

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.

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 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.

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
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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: <ol style="list-style-type: none"> 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 1-804-746-1252, or writing Diane Fowlkes, Chief Financial Officer, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111, or accessing the website, www.colonialfarmcredit.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.

Colonial Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2021 <i>(unaudited)</i>	December 31, 2020 <i>(audited)</i>
Assets		
Cash	\$ 43	\$ 157
Loans	743,914	722,734
Allowance for loan losses	<u>(2,665)</u>	<u>(2,596)</u>
Net loans	741,249	720,138
Accrued interest receivable	6,097	5,461
Equity investments in other Farm Credit institutions	6,623	6,616
Premises and equipment, net	1,791	1,859
Accounts receivable	3,094	9,865
Other assets	<u>1,186</u>	<u>1,140</u>
Total assets	<u>\$ 760,083</u>	<u>\$ 745,236</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 551,418	\$ 529,440
Accrued interest payable	1,174	1,179
Patronage refunds payable	129	18,057
Accounts payable	806	1,230
Other liabilities	<u>5,105</u>	<u>4,581</u>
Total liabilities	<u>558,632</u>	<u>554,487</u>
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	5,625	5,520
Unallocated retained earnings	196,210	185,679
Accumulated other comprehensive income (loss)	<u>(384)</u>	<u>(450)</u>
Total members' equity	<u>201,451</u>	<u>190,749</u>
Total liabilities and members' equity	<u>\$ 760,083</u>	<u>\$ 745,236</u>

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

Colonial Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest Income				
Loans	\$ 9,399	\$ 9,046	\$ 26,771	\$ 27,271
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	3,498	3,601	10,161	11,040
Net interest income	5,901	5,445	16,610	16,231
Provision for loan losses	143	118	53	237
Net interest income after provision for loan losses	5,758	5,327	16,557	15,994
Noninterest Income				
Loan fees	74	84	694	358
Fees for financially related services	7	20	30	42
Lease income	25	57	82	110
Patronage refunds from other Farm Credit institutions	1,021	965	2,956	2,850
Gains (losses) on sales of rural home loans, net	131	185	462	552
Gains (losses) on sales of premises and equipment, net	—	—	(1)	—
Gains (losses) on other transactions	90	33	156	3
Insurance Fund refunds	—	—	—	121
Other noninterest income	22	19	59	53
Total noninterest income	1,370	1,363	4,438	4,089
Noninterest Expense				
Salaries and employee benefits	2,551	2,342	7,655	7,056
Occupancy and equipment	145	141	393	418
Insurance Fund premiums	214	139	618	333
(Gains) losses on other property owned, net	—	4	—	(32)
Other operating expenses	569	462	1,792	1,650
Total noninterest expense	3,479	3,088	10,458	9,425
Income before income taxes	3,649	3,602	10,537	10,658
Provision for income taxes	5	2	5	7
Net income	\$ 3,644	\$ 3,600	\$ 10,532	\$ 10,651
Other comprehensive income net of tax				
Employee benefit plans adjustments	22	14	66	43
Comprehensive income	\$ 3,666	\$ 3,614	\$ 10,598	\$ 10,694

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

Colonial Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2019	\$ 5,238	\$ 183,461	\$ (357)	\$ 188,342
Comprehensive income		10,651	43	10,694
Capital stock/participation certificates issued/(retired), net	114			114
Balance at September 30, 2020	\$ 5,352	\$ 194,112	\$ (314)	\$ 199,150
Balance at December 31, 2020	\$ 5,520	\$ 185,679	\$ (450)	\$ 190,749
Comprehensive income		10,532	66	10,598
Capital stock/participation certificates issued/(retired), net	105			105
Patronage distribution adjustment		(1)		(1)
Balance at September 30, 2021	\$ 5,625	\$ 196,210	\$ (384)	\$ 201,451

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

Colonial Farm Credit, 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 Colonial 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.

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	\$ 505,126	\$ 478,540
Production and intermediate-term	161,252	164,816
Loans to cooperatives	5,803	4,636
Processing and marketing	18,692	20,120
Farm-related business	4,618	5,030
Communication	223	-
Power and water/waste disposal	327	720
Rural residential real estate	44,566	45,565
International	3,307	3,307
Total loans	<u>\$ 743,914</u>	<u>\$ 722,734</u>

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	\$ 7,663	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,663	\$ -
Production and intermediate-term	11,530	1,315	3,253	-	-	-	14,783	1,315
Loans to cooperatives	5,354	-	457	-	-	-	5,811	-
Processing and marketing	14,072	-	2,714	-	-	-	16,786	-
Farm-related business	321	-	-	-	-	-	321	-
Communication	228	-	-	-	-	-	228	-
Power and water/waste disposal	335	-	-	-	-	-	335	-
International	3,311	-	-	-	-	-	3,311	-
Total	<u>\$ 42,814</u>	<u>\$ 1,315</u>	<u>\$ 6,424</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,238</u>	<u>\$ 1,315</u>

	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	\$ 8,567	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,567	\$ -
Production and intermediate-term	13,272	773	3,620	-	-	-	16,892	773
Loans to cooperatives	3,791	-	852	-	-	-	4,643	-
Processing and marketing	14,928	41	2,473	-	-	-	17,401	41
Farm-related business	321	72	-	-	-	-	321	72
Power and water/waste disposal	727	-	-	-	-	-	727	-
International	3,311	-	-	-	-	-	3,311	-
Total	<u>\$ 44,917</u>	<u>\$ 886</u>	<u>\$ 6,945</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,862</u>	<u>\$ 886</u>

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		September 30, 2021	December 31, 2020
Real estate mortgage:			Communication:		
Acceptable	98.07%	97.58%	Acceptable	100.00%	100.00%
OAEM	1.37	1.56	OAEM	–	–
Substandard/doubtful/loss	0.56	0.86	Substandard/doubtful/loss	–	–
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	96.08%	96.84%	Acceptable	100.00%	100.00%
OAEM	3.54	2.88	OAEM	–	–
Substandard/doubtful/loss	0.38	0.28	Substandard/doubtful/loss	–	–
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	100.00%	Acceptable	98.92%	98.81%
OAEM	–	–	OAEM	0.68	0.71
Substandard/doubtful/loss	–	–	Substandard/doubtful/loss	0.40	0.48
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Processing and marketing:			International:		
Acceptable	100.00%	99.78%	Acceptable	100.00%	100.00%
OAEM	–	–	OAEM	–	–
Substandard/doubtful/loss	–	0.22	Substandard/doubtful/loss	–	–
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business:			Total loans:		
Acceptable	100.00%	98.85%	Acceptable	97.77%	97.59%
OAEM	–	1.15	OAEM	1.74	1.74
Substandard/doubtful/loss	–	–	Substandard/doubtful/loss	0.49	0.67
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>

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	\$ 2,338	\$ 365	\$ 2,703	\$ 506,282	\$ 508,985
Production and intermediate-term	1,526	51	1,577	161,658	163,235
Loans to cooperatives	–	–	–	5,805	5,805
Processing and marketing	–	–	–	18,714	18,714
Farm-related business	–	–	–	4,640	4,640
Communication	–	–	–	224	224
Power and water/waste disposal	–	–	–	327	327
Rural residential real estate	–	–	–	44,766	44,766
International	–	–	–	3,315	3,315
Total	\$ 3,864	\$ 416	\$ 4,280	\$ 745,731	\$ 750,011

	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	\$ 3,353	\$ 432	\$ 3,785	\$ 478,208	\$ 481,993
Production and intermediate-term	2,938	159	3,097	163,486	166,583
Loans to cooperatives	–	–	–	4,637	4,637
Processing and marketing	–	–	–	20,147	20,147
Farm-related business	–	–	–	5,046	5,046
Power and water/waste disposal	–	–	–	721	721
Rural residential real estate	323	–	323	45,430	45,753
International	–	–	–	3,315	3,315
Total	\$ 6,614	\$ 591	\$ 7,205	\$ 720,990	\$ 728,195

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	\$	508	\$	698
Production and intermediate-term		356		236
Processing and marketing		–		46
Rural residential real estate		89		142
Total	\$	953	\$	1,122
Accruing restructured loans:				
Real estate mortgage	\$	348	\$	366
Rural residential real estate		16		25
Total	\$	364	\$	391
Accruing loans 90 days or more past due:				
Total	\$	–	\$	–
Total nonperforming loans	\$	1,317	\$	1,513
Other property owned		–		–
Total nonperforming assets	\$	1,317	\$	1,513
Nonaccrual loans as a percentage of total loans		0.13%		0.16%
Nonperforming assets as a percentage of total loans and other property owned		0.18%		0.21%
Nonperforming assets as a percentage of capital		0.65%		0.79%

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	\$	536	\$	431
Past due		417		691
Total	\$	953	\$	1,122
Impaired accrual loans:				
Restructured	\$	364	\$	391
90 days or more past due		–		–
Total	\$	364	\$	391
Total impaired loans	\$	1,317	\$	1,513
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								
	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							
Impaired loans:														
With a related allowance for credit losses:														
Real estate mortgage	\$	–	\$	–	\$	–	\$	–						
Production and intermediate-term	18	25	18	20	4	21	5							
Rural residential real estate	–	–	–	–	–	–	–							
Total	\$	18	\$	25	\$	18	\$	20	\$	4	\$	21	\$	5
With no related allowance for credit losses:														
Real estate mortgage	\$	856	\$	1,108	\$	–	\$	932	\$	206	\$	1,004	\$	239
Production and intermediate-term	338	1,174	–	367	82	396	94							
Rural residential real estate	105	170	–	114	25	123	29							
Total	\$	1,299	\$	2,452	\$	–	\$	1,413	\$	313	\$	1,523	\$	362
Total impaired loans:														
Real estate mortgage	\$	856	\$	1,108	\$	–	\$	932	\$	206	\$	1,004	\$	239
Production and intermediate-term	356	1,199	18	387	86	417	99							
Rural residential real estate	105	170	–	114	25	123	29							
Total	\$	1,317	\$	2,477	\$	18	\$	1,433	\$	317	\$	1,544	\$	367

Impaired loans:	December 31, 2020			Year Ended December 31, 2020	
	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	\$ –	\$ –	\$ –	\$ –	\$ –
Production and intermediate-term	163	261	38	226	50
Processing and marketing	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	\$ 163	\$ 261	\$ 38	\$ 226	\$ 50
With no related allowance for credit losses:					
Real estate mortgage	\$ 1,064	\$ 1,558	\$ –	\$ 1,480	\$ 327
Production and intermediate-term	73	813	–	103	22
Processing and marketing	46	64	–	64	14
Rural residential real estate	167	274	–	232	51
Total	\$ 1,350	\$ 2,709	\$ –	\$ 1,879	\$ 414
Total impaired loans:					
Real estate mortgage	\$ 1,064	\$ 1,558	\$ –	\$ 1,480	\$ 327
Production and intermediate-term	236	1,074	38	329	72
Processing and marketing	46	64	–	64	14
Rural residential real estate	167	274	–	232	51
Total	\$ 1,513	\$ 2,970	\$ 38	\$ 2,105	\$ 464

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	Total
Activity related to the allowance for credit losses:								
Balance at June 30, 2021	\$ 1,705	\$ 537	\$ 101	\$ –	\$ 1	\$ 159	\$ 15	\$ 2,518
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	–	4	–	–	–	–	–	4
Provision for loan losses	91	53	2	1	–	(1)	(3)	143
Balance at September 30, 2021	\$ 1,796	\$ 594	\$ 103	\$ 1	\$ 1	\$ 158	\$ 12	\$ 2,665
Balance at December 31, 2020	\$ 1,693	\$ 623	\$ 105	\$ –	\$ 2	\$ 161	\$ 12	\$ 2,596
Charge-offs	(1)	(11)	–	–	–	–	–	(12)
Recoveries	19	9	–	–	–	–	–	28
Provision for loan losses	85	(27)	(2)	1	(1)	(3)	–	53
Balance at September 30, 2021	\$ 1,796	\$ 594	\$ 103	\$ 1	\$ 1	\$ 158	\$ 12	\$ 2,665
Balance at June 30, 2020	\$ 1,620	\$ 617	\$ 106	\$ 2	\$ 7	\$ 141	\$ 12	\$ 2,505
Charge-offs	–	(31)	–	–	–	–	–	(31)
Recoveries	4	4	–	–	–	–	–	8
Provision for loan losses	44	60	2	(2)	–	14	–	118
Balance at September 30, 2020	\$ 1,668	\$ 650	\$ 108	\$ –	\$ 7	\$ 155	\$ 12	\$ 2,600
Balance at December 31, 2019	\$ 1,488	\$ 637	\$ 98	\$ 2	\$ 8	\$ 121	\$ 11	\$ 2,365
Charge-offs	(1)	(49)	–	–	–	–	–	(50)
Recoveries	25	23	–	–	–	–	–	48
Provision for loan losses	156	39	10	(2)	(1)	34	1	237
Balance at September 30, 2020	\$ 1,668	\$ 650	\$ 108	\$ –	\$ 7	\$ 155	\$ 12	\$ 2,600
Allowance on loans evaluated for impairment:								
Individually	\$ –	\$ 18	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 18
Collectively	1,796	576	103	1	1	158	12	2,647
Balance at September 30, 2021	\$ 1,796	\$ 594	\$ 103	\$ 1	\$ 1	\$ 158	\$ 12	\$ 2,665
Individually	\$ –	\$ 38	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 38
Collectively	1,693	585	105	–	2	161	12	2,558
Balance at December 31, 2020	\$ 1,693	\$ 623	\$ 105	\$ –	\$ 2	\$ 161	\$ 12	\$ 2,596
Recorded investment in loans evaluated for impairment:								
Individually	\$ 856	\$ 356	\$ –	\$ –	\$ –	\$ 105	\$ –	\$ 1,317
Collectively	508,129	162,879	29,159	224	327	44,661	3,315	748,694
Balance at September 30, 2021	\$ 508,985	\$ 163,235	\$ 29,159	\$ 224	\$ 327	\$ 44,766	\$ 3,315	\$ 750,011
Individually	\$ 1,064	\$ 236	\$ 46	\$ –	\$ –	\$ 167	\$ –	\$ 1,513
Collectively	480,929	166,347	29,784	–	721	45,586	3,315	726,682
Balance at December 31, 2020	\$ 481,993	\$ 166,583	\$ 29,830	\$ –	\$ 721	\$ 45,753	\$ 3,315	\$ 728,195

*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. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

Three Months Ended September 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ –	\$ 209	\$ –	\$ 209	
Total	\$ –	\$ 209	\$ –	\$ 209	
Post-modification:					
Production and intermediate-term	\$ –	\$ 240	\$ –	\$ 240	\$ (4)
Total	\$ –	\$ 240	\$ –	\$ 240	\$ (4)

Nine Months Ended September 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ –	\$ 1	\$ –	\$ 1	
Production and intermediate-term	–	209	3	212	
Processing and marketing	–	43	–	43	
Total	\$ –	\$ 253	\$ 3	\$ 256	
Post-modification:					
Real estate mortgage	\$ –	\$ 1	\$ –	\$ 1	\$ –
Production and intermediate-term	–	240	3	243	(4)
Processing and marketing	–	43	–	43	–
Total	\$ –	\$ 284	\$ 3	\$ 287	\$ (4)

Three Months Ended September 30, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ –	\$ 131	\$ –	\$ 131	
Processing and marketing	–	–	2	2	
Total	\$ –	\$ 131	\$ 2	\$ 133	
Post-modification:					
Real estate mortgage	\$ –	\$ 131	\$ –	\$ 131	\$ –
Processing and marketing	–	–	3	3	–
Total	\$ –	\$ 131	\$ 3	\$ 134	\$ –

Nine Months Ended September 30, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ –	\$ 132	\$ –	\$ 132	
Production and intermediate-term	–	–	2	2	
Processing and marketing	–	51	–	51	
Total	\$ –	\$ 183	\$ 2	\$ 185	
Post-modification:					
Real estate mortgage	\$ –	\$ 132	\$ –	\$ 132	\$ –
Production and intermediate-term	–	–	3	3	–
Processing and marketing	–	52	–	52	–
Total	\$ –	\$ 184	\$ 3	\$ 187	\$ –

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 were no TDRs 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	\$ 462	\$ 633	\$ 114	\$ 267
Production and intermediate-term	314	101	314	101
Processing and marketing	—	46	—	46
Rural residential real estate	72	87	56	62
Total loans	\$ 848	\$ 867	\$ 484	\$ 476
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 2.29 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 \$456 in investments 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 (AOCI)

	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	\$ (406)	\$ (328)	\$ (450)	\$ (357)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	22	14	66	43
Net current period other comprehensive income	22	14	66	43
Balance at end of period	\$ (384)	\$ (314)	\$ (384)	\$ (314)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2021	2020	2021	2020	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (22)	\$ (14)	\$ (66)	\$ (43)	See Note 7.
Net amounts reclassified	\$ (22)	\$ (14)	\$ (66)	\$ (43)	

(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	\$ 902	\$ 902	\$ —	\$ —	\$ 902
Recurring Assets	\$ 902	\$ 902	\$ —	\$ —	\$ 902
Liabilities:					
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ —	\$ —	\$ —	\$ —	\$ —
Other property owned	—	—	—	—	—
Nonrecurring Assets	\$ —	\$ —	\$ —	\$ —	\$ —
Other Financial Instruments					
Assets:					
Cash	\$ 43	\$ 43	\$ —	\$ —	\$ 43
Loans	741,249	—	—	746,685	746,685
Other Financial Assets	\$ 741,292	\$ 43	\$ —	\$ 746,685	\$ 746,728
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 551,418	\$ —	\$ —	\$ 554,061	\$ 554,061
Other Financial Liabilities	\$ 551,418	\$ —	\$ —	\$ 554,061	\$ 554,061

December 31, 2020

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 886	\$ 886	\$ –	\$ –	\$ 886
Recurring Assets	\$ 886	\$ 886	\$ –	\$ –	\$ 886
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 125	\$ –	\$ –	\$ 125	\$ 125
Other property owned	–	–	–	–	–
Nonrecurring Assets	\$ 125	\$ –	\$ –	\$ 125	\$ 125
Other Financial Instruments					
Assets:					
Cash	\$ 157	\$ 157	\$ –	\$ –	\$ 157
Loans	720,013	–	–	729,667	729,667
Other Financial Assets	\$ 720,170	\$ 157	\$ –	\$ 729,667	\$ 729,824
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 529,440	\$ –	\$ –	\$ 535,957	\$ 535,957
Other Financial Liabilities	\$ 529,440	\$ –	\$ –	\$ 535,957	\$ 535,957

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	\$ –	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	\$ 629	\$ 483	\$ 1,886	\$ 1,449
401(k)	100	98	337	336
Other postretirement benefits	54	51	153	158
Total	\$ 783	\$ 632	\$ 2,376	\$ 1,943

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 \$6,348 and \$6,613 which will be recorded as patronage refunds from other Farm Credit institutions.