
Puerto Rico Farm Credit, ACA

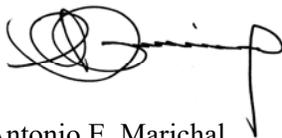
FIRST QUARTER 2021

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2021 quarterly report of Puerto Rico 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.



Antonio E. Marichal
Chairman of Board of Directors and
Chairman of the Audit Committee



Ricardo L. Fernández
Chief Executive Officer

May 7, 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 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 March 31, 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 March 31, 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 March 31, 2021.



Ricardo L. Fernández
Chief Executive Officer

May 7, 2021

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

(dollars in thousands)

The following commentary reviews the consolidated financial condition and results of operations of Puerto Rico Farm Credit, ACA (Association) for the period ended March 31, 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 agriculture on the island. Today the team is still working half the time in the office and half the time remotely. The team has been divided into two teams alternating days at the office so we can ensure continuity of the operation.

During the first quarter of 2021, significant progress has been made in the fight against COVID-19 with the distribution of vaccines. In Puerto Rico over 1 million doses have been administered with over 800K eligible adults fully vaccinated out of 2.3 million eligible adults. However, it remains unclear how quickly the vaccines will be distributed globally or when the restrictions that were imposed to slow the spread of the pandemic will be lifted entirely on the island. 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 and customers. 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.

On March 11, 2021, Congress passed the \$1.9 trillion American Rescue Plan Act of 2021 that provided an additional \$1.9 trillion of economic stimulus. Among other provisions is \$10.4 billion for agriculture and USDA, including \$4 billion and \$1 billion for debt forgiveness and outreach/support, respectively, for socially disadvantaged farmers.

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

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

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing short and intermediate-term loans and long-term real estate mortgage loans. The Association also maintains a portfolio of purchased loans, originated by other Farm Credit System entities and non-system entities. The Association's predominant chartered territory (CT) agricultural commodities were dairy, fruits (including plantains and coffee) and processing industries which totaled approximately \$63,966 or 39.57 percent of the gross principal balance, net of sold loans, at March 31, 2021.

The gross loan volume of the Association at March 31, 2021 was \$161,043, an increase of \$7,617 or 4.96 percent as compared to \$153,426 at December 31, 2020. Loans originated within the Association's chartered territory were higher by approximately \$5,509 and participation purchased loans increased by approximately \$2,108. The loan volume increase was a result of new loans closed during the quarter.

Net loans at March 31, 2021 totaled \$159,585 as compared to \$151,944 at December 31, 2020. Net loans made up 96.21 percent of total assets at March 31, 2021, as compared to 94.98 percent at December 31, 2020.

Non-accrual loans totaled \$5,678 or 3.53 percent of total loans at March 31, 2021, compared to \$5,779 or 3.77 percent of total loans at December 31, 2020. Nonaccrual loans decreased \$101 during 2021 primarily due to a CT nonaccrual loan reinstated to accrual status and a paid in full CT nonaccrual loan along with scheduled repayments.

The overall delinquency rate for the accruing loan portfolio slightly decreased during the first quarter 2021. Management expects that high risk loans may increase by the end of the year as the COVID-19 pandemic continues to adversely impact the island's economy.

The allowance for loan losses decreased \$24 to \$1,458 at March 31, 2021 from \$1,482 at December 31, 2020. The decrease was primarily due to decreases in general reserves in the impaired CT nonaccrual loans, CT Dairy industry, and Collateral risk and in the PL Rural Utilities, and Field Crops industries. Those decreases were partially offset by increases in specific reserves for the CT impaired loans and increases in general reserves for the CT Processing and Cattle industries and in PL Nursery industry among others. Management will continue to monitor certain risks, such as collateral risk and other factors that may increase the risk of the portfolio, such as climate conditions, government fiscal policy and overall economic conditions on the island. The total allowance for loan losses to outstanding loan volume decreased to 0.91 percent at March 31, 2021 from 0.97 percent at December 31, 2020.

During 2021, no charge-offs were recorded and recoveries of \$4 were recognized on payments received for CT nonaccrual loans. The Association is actively marketing acquired properties and may incur additional accounting losses or gains as sales are completed.

During the last 15 years, Puerto Rico has experienced a severe economic crisis. Fiscal year 2020, which ended on June 30, 2020, was the first year the economy slightly improved and the central government increased its general fund net revenues by 41.2% against the previous year. This improvement was expected due to reconstruction funds being received after the hurricanes of 2017. However, not all the approved funds have been disbursed, causing the recovery to be slower than expected. The approval of the remaining funds is uncertain with new restrictions from the federal government and the Fiscal Planning Board. This may cause a shortfall on the Government's budget, an increase in uncertainty, instability and migration. The favorable outlook the Fiscal Planning Board and Government had for the next couple of years has been adjusted downward in part due to the COVID-19 pandemic.

The Fiscal Planning Board has not been as effective as expected. They have been diligent in overseeing conditions on the island but not in imposing strict economic and austerity measures until the end of 2020. So far, said measures have been amiable to the local economy. However, it is difficult to predict how economic conditions on the island can improve with the uncertainty level that remains from the ongoing pandemic.

Besides Puerto Rico's high public debt, there are other critical problems such as, the reconstruction of the island after hurricane Maria, funding of the pension plan for government retirees and school teachers. The federal government will begin releasing funds to rebuild the island and should provide short-term economic stimulus. The government has to continue improving its operational efficiency to lower operating costs.

Puerto Rico's economy will remain stable but fragile amidst the continuing impact of the pandemic. The Association expects to continue to improve performance as interest in local agriculture grows. The Board of Directors and Management will continue to work with the government and other entities in moving forward the island's agricultural sector. Economists continue to forecast a minor increase in GDP of 1% due to additional federal funds being received. The forecast over the next three years is for a stable economy which is good for the island as it continues to recover from the pandemic and a plan to pay back the debt is implemented.

Through all this, the agricultural sector's outlook is stable and farmers will continue to fair well under the current market conditions. Additionally, grants from government and non-profit entities will continue to provide liquidity to farmers. This should allow farmers to continue managing their operations profitably and maintain the credit quality of the Association's portfolio while limiting loan growth opportunities.

The local dairy industry production remained stable in 2020 compared to 2019, however, farmers received on average \$.01 less per quart in 2020 vs. 2019. Our member dairy farmers fared in line with averages in 2020 versus the rest of the industry. The Association continues to monitor events within the industry and their potential impact on the performance of the dairy portfolio. The Association lends almost 30.64% of total chartered territory loans to the dairy industry and has implemented risk management practices to mitigate concentration risk.

Other agricultural sectors do not represent significant risk for the association. Management monitors all sectors and does not anticipate any adverse impact to the portfolio in 2021.

The Association will continue to find creative ways to fulfill its public mission. Leadership of the ACA believes that agriculture is still viable on the island and has many opportunities ahead. However, the Board of Directors and Management remain

cautious of the Association's ability to grow the portfolio under the prevailing economic and political environment.

RESULTS OF OPERATIONS

For the three months ended March 31, 2021

The Association recorded net income for the three months ended March 31, 2021 of \$347 as compared to \$651 for the same period in 2020. This \$304 decrease in net income is primarily attributed to a decrease in net interest income and an increase in noninterest expenses.

Net interest income was \$1,080 for the three months ended March 31, 2021 compared to \$1,196 for the same period in 2020, representing a decrease of \$116 or 9.70 percent mainly attributed to a decline in the Prime Rate on variable rate loans.

A reversal of allowance for loan losses was \$28 for the three months ended March 31, 2021 compared to \$87 for the same period in 2020. During the first quarter 2020, the reversal of allowance for loan losses was mainly due to lower required general reserves for CT Dairy industry and collateral risk among various PL industries partially offset by an increase on the specific reserves for the CT impaired loans.

Noninterest income for the three months ended March 31, 2021 totaled \$250 compared to \$281 for the same period of 2020, resulting in a decrease of \$31 or 11.03 percent. This decrease was mainly due to decreases in gains on sales of premises and equipment and in insurance fund refunds from the Farm Credit System Insurance Corporation (FCSIC).

In 2020, the Association recorded \$20 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 was \$1,011 for the three months ended March 31, 2021 as compared to \$913 for the same period in 2020, resulting in an increase of \$98 or 10.73 percent. This increase was primarily due to increases of \$49 in salaries and employee benefits and \$26 in other operating expenses.

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 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 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 notes. The variable rate notes are utilized by the Association to fund variable rate loan advances and operating fund requirements. The fixed rate notes are used specifically to fund fixed rate loan advances made by the Association.

The total notes payable to the Bank at March 31, 2021 was \$106,322 as compared to \$101,357 at December 31, 2020. The increase of \$4,965 or 4.90 percent is primarily due to an increase in loan volume outstanding during the period. The Association had no lines of credit outstanding with third parties as of March 31, 2021.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to either the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Fixed rate loans are priced based on the current cost of Farm Credit System debt of similar terms to maturity. The Association does not offer or include adjustable rate mortgages (ARMS) in its portfolio of loan products.

The majority of the interest rate risk in the Association balance sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control interest rate risk associated with the loan portfolio.

CAPITAL RESOURCES

Total members' equity at March 31, 2021 increased by \$358 or 0.65 percent to \$55,146 from December 31, 2020 total of \$54,788. The increase was primarily attributable to year-to-date net income.

Total capital stock and participation certificates were \$455 at March 31, 2021 compared to \$444 at December 31, 2020. The increase of \$11 was the result of the capital stock and participation certificates issued on new loans originated in the normal course of business.

Unallocated retained earnings were \$54,691 at March 31, 2021 for an increase of \$347 or 0.64 percent from December 31,

2020 when unallocated retained earnings totaled \$54,344. The increase was due to 2021 year-to-date net income.

Key financial condition ratios were as follows:

	3/31/2021	12/31/2020
Total Members' Equity to Asset	33.25%	34.25%

Regulatory Capital Ratios

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

	Regulatory Minimum, Including Buffer*	3/31/2021	12/31/2020	3/31/2020
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	35.27%	36.44%	37.01%
Tier 1 Capital Ratio	8.50%	35.27%	36.44%	37.01%
Total Regulatory Capital Ratio	10.50%	36.29%	37.64%	38.22%
Permanent Capital Ratio	7.00%	35.61%	36.85%	37.44%
Tier 1 Leverage Ratio	5.00%	33.43%	34.45%	34.88%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	33.92%	35.02%	35.47%

**Includes fully phased-in capital conservation buffers which became effective on 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 23, 2019, the Farm Credit Administration 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 LIBOR transition could result in paying higher interest rates on current LIBOR-indexed Systemwide Debt Securities, adversely affect the yield on, and fair value of, loans and investments held that reference LIBOR, and increase the costs of or affect the ability to effectively use derivative instruments to manage interest rate risk. In addition, there could be other ramifications including those that may arise as a result of the need to redeem or terminate such instruments.

The FCA has issued guidelines 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 over time. The FCA identified the following as important considerations in the development of each entity's transition plan:

- a governance structure to manage the transition;
- an assessment of exposures to LIBOR;
- an assessment of the fallback provisions in contracts and the impact of a LIBOR phase-out under those provisions;
- the establishment of strategies for reducing each type of LIBOR exposure;
- an assessment of the operational processes that need to be changed;
- a communication strategy for customers and shareholders;
- the establishment of a process to stay abreast of industry developments and best practices;
- the establishment of a process to ensure a coordinated approach, to the extent possible, across the District; and
- a timeframe and action steps for completing key objectives.

The Association has established and is in the process of implementing LIBOR transition plans, including implementing fallback language into variable-rate financial instruments which provides the ability to move these instruments to another index if the LIBOR market is no longer viable, 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.

At this time, it is not known when LIBOR will cease to be available or will become unrepresentative, or which benchmark will replace LIBOR. Because the Bank and Associations engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on financial results, borrowers, investors, and counterparties.

For example, on April 6, 2021, the New York Governor signed into law the New York State Legislature's Senate Bill 297B/Assembly Bill 164B (the New York LIBOR Legislation). The New York LIBOR Legislation amends the New York General Obligations Law by adding new Article 18-c and mirrors a legislative proposal drafted by the Alternative Reference Rates Committee (the ARRC) aimed at ensuring legal clarity for legacy instruments governed by New York law during the US dollar LIBOR transition. The ARRC is an industry-working group convened by the Federal Reserve Board and the New York Fed to lead the LIBOR transition, which, among other work, has developed industry-specific fallback language that may be used by market participants to address the cessation of US dollar LIBOR. The New York LIBOR Legislation applies to US dollar LIBOR-based contracts, securities, and instruments governed under New York law that (i) do not have any US dollar LIBOR fallback provisions in place, (ii) have US dollar LIBOR fallback provisions that result in replacement rates that are in some way based on US dollar LIBOR, or (iii) have US dollar LIBOR fallback provisions that allow or require one of the parties or an outsider to select a replacement rate for US dollar LIBOR. The New York LIBOR Legislation (a) provides in respect of (i) and (ii) above, upon the occurrence of a "LIBOR Discontinuance Event" and the related "LIBOR Replacement Date" (each as defined in the New York LIBOR Legislation), that the then-current US dollar LIBOR based benchmark, by operation of law, be replaced by a "Recommended Benchmark Replacement" (as defined in the New York LIBOR Legislation) based on the Secured Overnight Financing Rate (SOFR), or, (b) in respect of (iii), encourages the replacement of LIBOR with the "Recommended Benchmark Replacement" by providing a safe harbor from legal challenges under New York law.

The New York LIBOR Legislation may apply to certain of the System institutions' LIBOR-based instruments. For example, to the extent there is an absence of controlling federal law or unless otherwise provided under the terms and conditions of a particular issue of Systemwide Debt Securities, the Systemwide Debt Securities are governed by and construed in accordance

with the laws of the State of New York, including the New York General Obligations Law.

At present, there is no specific federal law akin to the New York LIBOR Legislation addressing the US dollar LIBOR transition. However, United States Congress began working on a draft version of federal legislation in October of 2020 that would provide a statutory substitute benchmark rate for contracts that use US dollar LIBOR as a benchmark and that do not have any sufficient fallback clauses in place. While similar to the New York LIBOR Legislation, there are differences in the current draft of the federal legislation, which was discussed at the House of Representative Subcommittee on Investor Protection, Entrepreneurship and Capital Markets on April 15, 2021. These include, perhaps most significantly, that the draft

bill specifically provides for the preemption of state law, which would include the New York LIBOR Legislation. At this time, it is uncertain as to whether, when and in what form such federal legislation would be adopted.

OTHER MATTERS

The Association continues its service agreement with Farm Credit of Florida, 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. Both parties are in compliance with the terms of the agreement and expect to continue working under the agreement in 2021.

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 its website, www.agfirst.com. Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-800-981-3323, or writing Alice Rivera, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936-3649, or accessing the website, www.prfarmcredit.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 Association.

Puerto Rico Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2021 <i>(unaudited)</i>	December 31, 2020 <i>(audited)</i>
Assets		
Cash	\$ 128	\$ 192
Loans	161,043	153,426
Allowance for loan losses	(1,458)	(1,482)
Net loans	159,585	151,944
Accrued interest receivable	545	488
Equity investments in other Farm Credit institutions	1,396	1,385
Premises and equipment, net	1,095	1,112
Other property owned	2,761	2,761
Accounts receivable	240	2,029
Other assets	119	68
Total assets	\$ 165,869	\$ 159,979
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 106,322	\$ 101,357
Accrued interest payable	176	176
Patronage refunds payable	82	2,900
Accounts payable	225	221
Other liabilities	3,918	537
Total liabilities	110,723	105,191
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	455	444
Unallocated retained earnings	54,691	54,344
Total members' equity	55,146	54,788
Total liabilities and members' equity	\$ 165,869	\$ 159,979

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

Puerto Rico Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

For the Three Months
Ended March 31,
2021 2020

(dollars in thousands)

	2021	2020
Interest Income		
Loans	\$ 1,609	\$ 1,931
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	529	735
Net interest income	1,080	1,196
Provision for (reversal of allowance for) loan losses	(28)	(87)
Net interest income after provision for (reversal of allowance for) loan losses	1,108	1,283
Noninterest Income		
Loan fees	28	27
Patronage refunds from other Farm Credit institutions	225	216
Gains (losses) on sales of premises and equipment, net	—	14
Gains (losses) on other transactions	(3)	4
Insurance Fund refunds	—	20
Total noninterest income	250	281
Noninterest Expense		
Salaries and employee benefits	481	432
Occupancy and equipment	43	42
Insurance Fund premiums	35	17
(Gains) losses on other property owned, net	18	14
Other operating expenses	434	408
Total noninterest expense	1,011	913
Net income	\$ 347	\$ 651
Other comprehensive income	—	—
Comprehensive income	\$ 347	\$ 651

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Total Members' Equity
Balance at December 31, 2019	\$ 430	\$ 54,332	\$ 54,762
Comprehensive income		651	651
Capital stock/participation certificates issued/(retired), net	8		8
Balance at March 31, 2020	\$ 438	\$ 54,983	\$ 55,421
Balance at December 31, 2020	\$ 444	\$ 54,344	\$ 54,788
Comprehensive income		347	347
Capital stock/participation certificates issued/(retired), net	11		11
Balance at March 31, 2021	\$ 455	\$ 54,691	\$ 55,146

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

Puerto Rico 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 Puerto Rico Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, 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. Such 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 5, *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:

	March 31, 2021	December 31, 2020
Real estate mortgage	\$ 59,128	\$ 58,406
Production and intermediate-term	47,106	40,894
Loans to cooperatives	1,848	1,703
Processing and marketing	31,976	30,379
Farm-related business	26	113
Communication	10,062	11,642
Rural residential real estate	8,485	8,400
International	2,412	1,889
Total loans	\$ 161,043	\$ 153,426

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:

	March 31, 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	\$ 7,890	\$ 780	\$ -	\$ -	\$ 46	\$ -	\$ 7,936	\$ 780
Production and intermediate term	13,943	783	-	-	2,772	-	16,715	783
Loans to cooperatives	1,852	-	-	-	-	-	1,852	-
Processing and marketing	21,393	12,131	-	-	827	-	22,220	12,131
Communication	10,096	-	-	-	-	-	10,096	-
International	2,416	-	-	-	-	-	2,416	-
Total	\$ 57,590	\$ 13,694	\$ -	\$ -	\$ 3,645	\$ -	\$ 61,235	\$ 13,694

	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	\$ 7,400	\$ 827	\$ -	\$ -	\$ 46	\$ -	\$ 7,446	\$ 827
Production and intermediate term	12,827	1,022	-	-	1,510	-	14,337	1,022
Loans to cooperatives	1,707	-	-	-	-	-	1,707	-
Processing and marketing	22,325	12,665	-	-	-	-	22,325	12,665
Communication	11,684	-	-	-	-	-	11,684	-
International	1,892	-	-	-	-	-	1,892	-
Total	\$ 57,835	\$ 14,514	\$ -	\$ -	\$ 1,556	\$ -	\$ 59,391	\$ 14,514

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:

	March 31, 2021	December 31, 2020		March 31, 2021	December 31, 2020
Real estate mortgage:			Communication:		
Acceptable	98.12%	98.05%	Acceptable	100.00%	100.00%
OAEM	0.05	0.05	OAEM	—	—
Substandard/doubtful/loss	1.83	1.90	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Rural residential real estate:		
Acceptable	80.10%	76.13%	Acceptable	92.15%	91.88%
OAEM	11.90	14.52	OAEM	1.92	1.64
Substandard/doubtful/loss	8.00	9.35	Substandard/doubtful/loss	5.93	6.48
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:			International:		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Processing and marketing:			Total loans:		
Acceptable	100.00%	100.00%	Acceptable	93.08%	92.45%
OAEM	—	—	OAEM	3.60	3.98
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	3.32	3.57
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business:					
Acceptable	100.00%	100.00%			
OAEM	—	—			
Substandard/doubtful/loss	—	—			
	<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:

	March 31, 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	\$ 299	\$ 440	\$ 739	\$ 58,658	\$ 59,397	
Production and intermediate-term	—	4,689	4,689	42,561	47,250	
Loans to cooperatives	—	—	—	1,849	1,849	
Processing and marketing	—	—	—	32,074	32,074	
Farm-related business	—	—	—	26	26	
Communication	—	—	—	10,062	10,062	
Rural residential real estate	344	—	344	8,171	8,515	
International	—	—	—	2,415	2,415	
Total	\$ 643	\$ 5,129	\$ 5,772	\$ 155,816	\$ 161,588	

	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	\$ 256	\$ 786	\$ 1,042	\$ 57,564	\$ 58,606	
Production and intermediate-term	41	4,748	4,789	36,255	41,044	
Loans to cooperatives	—	—	—	1,704	1,704	
Processing and marketing	—	—	—	30,487	30,487	
Farm-related business	—	—	—	114	114	
Communication	—	—	—	11,643	11,643	
Rural residential real estate	513	28	541	7,885	8,426	
International	—	—	—	1,890	1,890	
Total	\$ 810	\$ 5,562	\$ 6,372	\$ 147,542	\$ 153,914	

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

	March 31, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	\$ 990	\$ 1,007
Production and intermediate-term	4,688	4,744
Rural residential real estate	—	28
Total	<u>\$ 5,678</u>	<u>\$ 5,779</u>
Accruing restructured loans:		
Real estate mortgage	\$ 519	\$ 1,633
Production and intermediate-term	3,424	2,321
Rural residential real estate	161	134
Total	<u>\$ 4,104</u>	<u>\$ 4,088</u>
Accruing loans 90 days or more past due:		
Total	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	\$ 9,782	\$ 9,867
Other property owned	2,761	2,761
Total nonperforming assets	<u>\$ 12,543</u>	<u>\$ 12,628</u>
Non-accrual loans as a percentage of total loans	3.53%	3.77%
Nonperforming assets as a percentage of total loans and other property owned	7.66%	8.09%
Nonperforming assets as a percentage of capital	<u>22.75%</u>	<u>23.05%</u>

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.

	March 31, 2021	December 31, 2020
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 369	\$ 135
Past due	5,309	5,644
Total	<u>\$ 5,678</u>	<u>\$ 5,779</u>
Impaired accrual loans:		
Restructured	\$ 4,104	\$ 4,088
90 days or more past due	—	—
Total	<u>\$ 4,104</u>	<u>\$ 4,088</u>
Total impaired loans	<u>\$ 9,782</u>	<u>\$ 9,867</u>
Additional commitments to lend	<u>\$ —</u>	<u>\$ —</u>

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

Impaired loans:	March 31, 2021			Three Months Ended March 31, 2021	
	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	\$ 183	\$ 260	\$ 18	\$ 191	\$ 2
Production and intermediate-term	—	—	—	—	—
Rural residential real estate	49	47	8	51	—
Total	<u>\$ 232</u>	<u>\$ 307</u>	<u>\$ 26</u>	<u>\$ 242</u>	<u>\$ 2</u>
With no related allowance for credit losses:					
Real estate mortgage	\$ 1,326	\$ 1,683	\$ —	\$ 1,387	\$ 10
Production and intermediate-term	8,112	8,424	—	8,479	66
Rural residential real estate	112	111	—	117	1
Total	<u>\$ 9,550</u>	<u>\$ 10,218</u>	<u>\$ —</u>	<u>\$ 9,983</u>	<u>\$ 77</u>
Total impaired loans:					
Real estate mortgage	\$ 1,509	\$ 1,943	\$ 18	\$ 1,578	\$ 12
Production and intermediate-term	8,112	8,424	—	8,479	66
Rural residential real estate	161	158	8	168	1
Total	<u>\$ 9,782</u>	<u>\$ 10,525</u>	<u>\$ 26</u>	<u>\$ 10,225</u>	<u>\$ 79</u>

	December 31, 2020			Year Ended December 31, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 526	\$ 640	\$ 15	\$ 561	\$ 14
Production and intermediate-term	–	–	–	–	–
Rural residential real estate	20	20	4	21	1
Total	\$ 546	\$ 660	\$ 19	\$ 582	\$ 15
With no related allowance for credit losses:					
Real estate mortgage	\$ 2,114	\$ 2,519	\$ –	\$ 2,253	\$ 59
Production and intermediate-term	7,065	7,322	–	7,531	196
Rural residential real estate	142	141	–	152	3
Total	\$ 9,321	\$ 9,982	\$ –	\$ 9,936	\$ 258
Total impaired loans:					
Real estate mortgage	\$ 2,640	\$ 3,159	\$ 15	\$ 2,814	\$ 73
Production and intermediate-term	7,065	7,322	–	7,531	196
Rural residential real estate	162	161	4	173	4
Total	\$ 9,867	\$ 10,642	\$ 19	\$ 10,518	\$ 273

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 December 31, 2020	\$ 572	\$ 390	\$ 307	\$ 111	\$ –	\$ 84	\$ 18	\$ 1,482
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	4	–	–	–	–	–	–	4
Provision for loan losses	(31)	29	(6)	(22)	–	(1)	3	(28)
Balance at March 31, 2021	\$ 545	\$ 419	\$ 301	\$ 89	\$ –	\$ 83	\$ 21	\$ 1,458
Balance at December 31, 2019	\$ 682	\$ 446	\$ 287	\$ 95	\$ 13	\$ 101	\$ 21	\$ 1,645
Charge-offs	(1)	–	–	–	–	–	–	(1)
Recoveries	1	–	–	–	–	–	–	1
Provision for loan losses	(56)	(19)	3	(5)	(1)	(7)	(2)	(87)
Balance at March 31, 2020	\$ 626	\$ 427	\$ 290	\$ 90	\$ 12	\$ 94	\$ 19	\$ 1,558
Allowance on loans evaluated for impairment:								
Individually	\$ 18	\$ –	\$ –	\$ –	\$ –	\$ 8	\$ –	\$ 26
Collectively	527	419	301	89	–	75	21	1,432
Balance at March 31, 2021	\$ 545	\$ 419	\$ 301	\$ 89	\$ –	\$ 83	\$ 21	\$ 1,458
Individually	\$ 15	\$ –	\$ –	\$ –	\$ –	\$ 4	\$ –	\$ 19
Collectively	557	390	307	111	–	80	18	1,463
Balance at December 31, 2020	\$ 572	\$ 390	\$ 307	\$ 111	\$ –	\$ 84	\$ 18	\$ 1,482
Recorded investment in loans evaluated for impairment:								
Individually	\$ 1,487	\$ 8,112	\$ –	\$ –	\$ –	\$ 161	\$ –	\$ 9,760
Collectively	57,910	39,138	33,949	10,062	–	8,354	2,415	151,828
Balance at March 31, 2021	\$ 59,397	\$ 47,250	\$ 33,949	\$ 10,062	\$ –	\$ 8,515	\$ 2,415	\$ 161,588
Individually	\$ 2,609	\$ 7,010	\$ –	\$ –	\$ –	\$ 134	\$ –	\$ 9,753
Collectively	55,997	34,034	32,305	11,643	–	8,292	1,890	144,161
Balance at December 31, 2020	\$ 58,606	\$ 41,044	\$ 32,305	\$ 11,643	\$ –	\$ 8,426	\$ 1,890	\$ 153,914

*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. There were no new TDRs that occurred during three months period ended March 31, 2021.

Outstanding Recorded Investment	Three Months Ended March 31, 2021				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Real estate mortgage	\$ –	\$ 341	\$ –	\$ 341	
Rural residential real estate	–	28	–	28	
Total	\$ –	\$ 369	\$ –	\$ 369	
Post-modification:					
Real estate mortgage	\$ –	\$ 339	\$ –	\$ 339	\$ –
Rural residential real estate	–	28	–	28	–
Total	\$ –	\$ 367	\$ –	\$ 367	\$ –

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 March 31,	
	2021	2020
Defaulted troubled debt restructurings:		
Rural residential real estate	\$ 29	\$ —
Total	\$ 29	\$ —

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	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Real estate mortgage	\$ 855	\$ 1,633	\$ 336	\$ —
Production and intermediate-term	8,113	7,010	4,689	4,689
Rural residential real estate	161	134	—	—
Total loans	\$ 9,129	\$ 8,777	\$ 5,025	\$ 4,689
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 0.46 percent of the issued stock of the Bank as of March 31, 2021 net of any reciprocal investment. As of that date, the Bank's assets totaled \$36.0 billion and shareholders' equity totaled \$2.5 billion. The Bank's earnings were \$124 million for the first three months of 2021. In addition, the Association held \$150 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 — 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.

		March 31, 2021				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Recurring Assets	\$	-	\$	-	\$	-
Liabilities:						
Recurring Liabilities	\$	-	\$	-	\$	-
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	206	\$	-	\$	206
Other property owned		2,761		-	2,968	2,968
Nonrecurring Assets	\$	2,967	\$	-	\$	3,174
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	128	\$	128	\$	-
Loans		159,379		-	160,662	160,662
Other Financial Assets	\$	159,507	\$	128	\$	160,790
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	106,322	\$	-	\$	107,327
Other Financial Liabilities	\$	106,322	\$	-	\$	107,327
		December 31, 2020				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Recurring Assets	\$	-	\$	-	\$	-
Liabilities:						
Recurring Liabilities	\$	-	\$	-	\$	-
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	527	\$	-	\$	527
Other property owned		2,761		-	2,964	2,964
Nonrecurring Assets	\$	3,288	\$	-	\$	3,491
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	192	\$	192	\$	-
Loans		151,417		-	153,648	153,648
Other Financial Assets	\$	151,609	\$	192	\$	153,840
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	101,357	\$	-	\$	102,696
Other Financial Liabilities	\$	101,357	\$	-	\$	102,696

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	\$ 3,174	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 6 — Employee Benefit Plans

The following is a table of retirement expenses for the Association:

	Three Months Ended March 31,	
	2021	2020
Pension	\$ 164	\$ 107
401(k)	20	18
Total	\$ 184	\$ 125

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 7 — 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 8 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 7, 2021, which was the date the financial statements were issued.