

THIRD QUARTER 2021

TABLE OF CONTENTS

Report On Internal Control Over Financial Reporting	2
Management’s Discussion and Analysis of Financial Condition and Results of Operations	3
Consolidated Financial Statements	
Consolidated Balance Sheets	10
Consolidated Statements of Comprehensive Income	11
Consolidated Statements of Changes in Members’ Equity	12
Notes to the Consolidated Financial Statements.....	13

CERTIFICATION

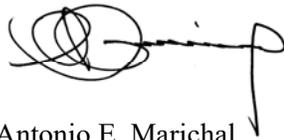
The undersigned certify that we have reviewed the September 30, 2021 quarterly report of Puerto Rico Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and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



Rafael J. Borges
Chairman of The Board of Directors



Ricardo L. Fernández
Chief Executive Officer



Antonio E. Marichal
Chairman of the Audit Committee

November 8, 2021

Report on Internal Control Over Financial Reporting

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



Ricardo L. Fernández
Chief Executive Officer

November 8, 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 September 30, 2021. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, and the 2020 annual report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

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

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for 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.

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 globally, in the United States and in Puerto Rico.

During the first half of 2021, significant progress has been made in the fight against COVID-19 with the distribution of vaccines. In Puerto Rico over 2.5 million eligible people over the age of 12 are fully vaccinated out of 2.8 million eligible people on the island. Spread of the virus has slowed down significantly on the island with the Delta variant of the virus affecting mostly unvaccinated people or vaccinated people with existing health conditions. We are proud that our entire team has been fully vaccinated since May. We will continue to

monitor local conditions and conditions abroad that can impact both employees and customers.

Uncertainty remains as to the ability to vaccinate those unvaccinated in the U.S. and globally that may help limit the spread of the virus and can get the world to some level of normalcy and economic recovery. 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.

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

COVID-19 Support Programs

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

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

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

The previously enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was amended by subsequent legislation, included the Paycheck Protection Program (PPP). The PPP 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.

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 (PL), 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 \$66,535 or 40.24 percent of the gross principal balance, net of sold loans, at September 30, 2021.

The gross loan volume of the Association at September 30, 2021 was \$164,179, an increase of \$10,753 or 7.01 percent as compared to \$153,426 at December 31, 2020. Loans originated within the Association's chartered territory were higher by approximately \$7,962 and participation purchased loans increased by approximately \$2,791. The loan volume increase was a result of an increase in loans closed during the quarter.

Net loans at September 30, 2021 totaled \$162,446 as compared to \$151,944 at December 31, 2020. Net loans made up 96.15 percent of total assets at September 30, 2021, as compared to 94.98 percent at December 31, 2020.

Non-accrual loans totaled \$7,037 or 4.29 percent of total loans at September 30, 2021, compared to \$5,779 or 3.77 percent of total loans at December 31, 2020. Nonaccrual loans increased \$1,258 during 2021 primarily due to a CT accrual loan transferred to nonaccrual status partially offset by other scheduled payments.

The overall delinquency rate for the accruing loan portfolio slightly increased during the third quarter 2021. Management expects that high risk loans may increase by the end of the year due to particular reasons impacting distressed loans. The COVID-19 pandemic may adversely impact other farmers on the island.

The allowance for loan losses increased \$251 to \$1,733 at September 30, 2021 from \$1,482 at December 31, 2020. The increase was primarily due to increases in the specific reserves for impaired loans and the general reserves for the

CT Dairy and PL Tree Fruits industries. Those increases were partially offset by a decrease in the CT general reserve for Collateral Risk 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 increased to 1.06 percent at September 30, 2021 from 0.97 percent at December 31, 2020.

During 2021, no charge-offs were recorded and recoveries of \$48 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.

Puerto Rico has endured a prolonged economic downturn for more than 16 years. GDP and employment continue a downward trend that started in 2006 when the then governor, shutdown the government for two weeks. Since then, Puerto Rico's economy has struggle for multiple reasons, including the lack of a sustainable economic plan, natural disasters and the pandemic. This economic environment is expected to continue over the next 12 months.

The Fiscal Planning Board continues to work on stabilizing the central government finances. A final plan has been approved to pay a reduced amount of debt in the near future.

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 has begun releasing funds to rebuild the island and that 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 2021 compared to 2020. Our member dairy farmers fared well versus the rest of the industry in 2020. 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% 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 Biden administration approved the American Rescue Plan in early 2021. Under the plan, USDA through Farm Services Agency (FSA) will deliver debt relief to socially disadvantage farmers and ranchers. It is not expected that loans originated by the Association with FSA guarantees will be paid-off as part of the program. Management believes that its FSA guaranteed portfolio will not be paid-off since the program was challenged in federal court and the program has been halted. USDA and the Department of Justice chose not to respond the claims presented in court. Congress is now working on a new program to assist all small farmers.

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 September 30, 2021

The Association recorded net income for the three months ended September 30, 2021 of \$108 as compared to \$427 for the same period in 2020. This \$319 decrease in net income is primarily attributed to increases in provision for loan losses expense and noninterest expenses.

Net interest income was \$1,092 for the three months ended September 30, 2021 compared to \$1,061 for the same period in 2020, representing an increase of \$31 or 2.92 percent mainly attributed to an increase in loan volume.

Provision for loan losses was \$274 for the three months ended September 30, 2021 compared to a provision for loan losses of \$1 for the same period in 2020. During the third quarter 2021, the provision for loan losses was mainly due to increases in specific reserves for impaired loans and increases in general reserves for the CT Dairy and PL Tree Fruits industries during the period.

Noninterest income for the three months ended September 30, 2021 totaled \$264 compared to \$223 for the same period of

2020, resulting in an increase of \$41 or 18.39 percent. This increase was mainly due to increases in the loan fees and patronage refunds from other Farm Credit institutions.

Noninterest expense was \$974 for the three months ended September 30, 2021 as compared to \$856 for the same period in 2020, resulting in an increase of \$118 or 13.79 percent. This increase was primarily driven by an increase of \$117 in salaries and employee benefits among others partially offset by decreases in losses on other property owned of \$23.

For the nine months ended September 30, 2021

Net income for the nine months ended September 30, 2021 totaled \$1,020 compared to \$1,301 for the same period in 2020, a decrease of \$281 or 21.60 percent. The decrease was mainly due to an increase in provision for loan losses expense.

Net interest income decreased \$44 or 1.31 percent to \$3,310 for the nine months ended September 30, 2021, from \$3,354 for the same period in 2020. The decrease is attributed to a decrease in interest income compared to prior year due to a decline in the Prime Rate on variable rate loans.

Provision for loan losses was \$203 for the nine months ended September 30, 2021 compared to a provision for loan losses of \$23 for the same period in 2020, an increase in expense of \$180. The increase in expense is mainly attributed to additional specific reserves on CT nonaccrual impaired loans among increases in the general reserves at quarter end.

Noninterest income for the nine months ended September 30, 2021 totaled \$795 as compared to \$817 for the same period in 2020, a decrease of \$22 or 2.69 percent. The decrease was mainly due to decreases in loan fees, insurance fund refunds and gains on sales of premises and equipment. Those decreases were partially offset by an increase in patronage refunds from other Farm Credit institutions

Noninterest expense was \$2,882 for the nine months ended September 30, 2021 as compared to \$2,847 for the same period in 2020, an increase of \$35 or 1.23 percent. The increase was primarily related to an increase of \$200 in salaries and employee benefits, \$53 in the insurance fund premiums and \$33 in other operating expenses partially offset by a decrease of \$273 in losses on other property owned.

Although the Association is subject to federal income tax, the Association does not expect to incur a federal tax liability in 2021.

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 September 30, 2021 was \$111,420 as compared to \$101,357 at December 31, 2020. The increase of \$10,063 or 9.93 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 September 30, 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 September 30, 2021 increased by \$1,060 or 1.93 percent to \$55,848 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 \$484 at September 30, 2021 compared to \$444 at December 31, 2020. The increase of \$40 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 \$55,364 at September 30, 2021 for an increase of \$1,020 or 1.88 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:

	<u>9/30/2021</u>	<u>12/31/2020</u>
Total Members' Equity to Asset	33.06%	34.25%

Regulatory Capital Ratios

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

	Regulatory Minimum, Including Buffer*	9/30/2021	12/31/2020	9/30/2020
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	33.74%	36.44%	36.19%
Tier 1 Capital Ratio	8.50%	33.74%	36.44%	36.19%
Total Regulatory Capital Ratio	10.50%	34.71%	37.64%	37.37%
Permanent Capital Ratio	7.00%	34.05%	36.85%	36.60%
Tier 1 Leverage Ratio	5.00%	32.44%	34.45%	34.62%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	32.90%	35.02%	35.20%

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

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

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

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

Future of LIBOR

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

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

The Association has exposure to LIBOR arising from loans made to customers, and Systemwide Debt Securities issued by the Funding Corporation on the Bank's and Association's

behalf. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

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

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

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

On October 20, 2021, the U.S. prudential regulators issued a joint statement emphasizing the expectation that supervised institutions with LIBOR exposure continue to progress toward an orderly transition away from LIBOR, reiterating that supervised institutions should, with limited exceptions, cease

entering into new contracts that use US dollar LIBOR as a reference rate as soon as practicable, but no later than December 31, 2021. They further stated that entering into new contracts, including derivatives, after that date would create safety and soundness risks. The joint statement clarified that entering into such new contracts would include an agreement that (1) creates additional LIBOR disclosure or (2) extends the term of an existing LIBOR contract, but that a draw on an existing agreement that is legally enforceable, e.g., a committed credit facility, would not be a new contract. The joint statement also provided considerations when assessing the appropriateness of alternative reference rates used in lieu of LIBOR and the regulator expectation that new or updated LIBOR contracts include strong and clearly defined fallback rates for when the initial reference rate is discontinued.

OTHER MATTERS

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.

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 \$1,322 and \$1,377 which will be recorded as patronage refunds from other Farm Credit institutions.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
<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>	September 30, 2021	December 31, 2020
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash	\$ 81	\$ 192
Loans	164,179	153,426
Allowance for loan losses	(1,733)	(1,482)
Net loans	162,446	151,944
Accrued interest receivable	722	488
Equity investments in other Farm Credit institutions	1,385	1,385
Premises and equipment, net	1,024	1,112
Other property owned	2,494	2,761
Accounts receivable	706	2,029
Other assets	94	68
Total assets	\$ 168,952	\$ 159,979
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 111,420	\$ 101,357
Accrued interest payable	181	176
Patronage refunds payable	3	2,900
Accounts payable	239	221
Other liabilities	1,261	537
Total liabilities	113,104	105,191
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	484	444
Unallocated retained earnings	55,364	54,344
Total members' equity	55,848	54,788
Total liabilities and members' equity	\$ 168,952	\$ 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)

<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	\$ 1,633	\$ 1,596	\$ 4,919	\$ 5,140
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	541	535	1,609	1,786
Net interest income	1,092	1,061	3,310	3,354
Provision for loan losses	274	1	203	23
Net interest income after provision for loan losses	818	1,060	3,107	3,331
Noninterest Income				
Loan fees	38	25	104	152
Fees for financially related services	—	4	—	4
Patronage refunds from other Farm Credit institutions	236	213	703	633
Gains (losses) on sales of premises and equipment, net	—	—	—	14
Gains (losses) on other transactions	(10)	(19)	(14)	(6)
Insurance Fund refunds	—	—	—	20
Other noninterest income	—	—	2	—
Total noninterest income	264	223	795	817
Noninterest Expense				
Salaries and employee benefits	465	348	1,461	1,261
Occupancy and equipment	52	39	142	120
Insurance Fund premiums	38	23	110	57
(Gains) losses on other property owned, net	15	38	(62)	211
Other operating expenses	404	408	1,231	1,198
Total noninterest expense	974	856	2,882	2,847
Net income	\$ 108	\$ 427	\$ 1,020	\$ 1,301
Other comprehensive income	—	—	—	—
Comprehensive income	\$ 108	\$ 427	\$ 1,020	\$ 1,301

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		1,301	1,301
Capital stock/participation certificates issued/(retired), net	12		12
Balance at September 30, 2020	\$ 442	\$ 55,633	\$ 56,075
Balance at December 31, 2020	\$ 444	\$ 54,344	\$ 54,788
Comprehensive income		1,020	1,020
Capital stock/participation certificates issued/(retired), net	40		40
Balance at September 30, 2021	\$ 484	\$ 55,364	\$ 55,848

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

(unaudited)

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

Organization

The accompanying financial statements include the accounts of 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:

	September 30, 2021	December 31, 2020
Real estate mortgage	\$ 55,513	\$ 58,406
Production and intermediate-term	55,775	40,894
Loans to cooperatives	1,744	1,703
Processing and marketing	34,180	30,379
Farm-related business	112	113
Communication	7,384	11,642
Rural residential real estate	7,582	8,400
International	1,889	1,889
Total loans	<u>\$ 164,179</u>	<u>\$ 153,426</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	\$ 6,566	\$ -	\$ -	\$ -	\$ 41	\$ -	\$ 6,607	\$ -
Production and intermediate term	17,434	216	-	-	3,837	-	21,271	216
Loans to cooperatives	1,750	-	-	-	-	-	1,750	-
Processing and marketing	21,985	11,381	-	-	827	-	22,812	11,381
Communication	7,420	-	-	-	-	-	7,420	-
International	1,892	-	-	-	-	-	1,892	-
Total	<u>\$ 57,047</u>	<u>\$ 11,597</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,705</u>	<u>\$ -</u>	<u>\$ 61,752</u>	<u>\$ 11,597</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	\$ 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	<u>\$ 57,835</u>	<u>\$ 14,514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,556</u>	<u>\$ -</u>	<u>\$ 59,391</u>	<u>\$ 14,514</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	98.50%	98.05%	Acceptable	100.00%	100.00%
OAEM	0.05	0.05	OAEM	–	–
Substandard/doubtful/loss	1.45	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	79.41%	76.13%	Acceptable	94.46%	91.88%
OAEM	5.99	14.52	OAEM	–	1.64
Substandard/doubtful/loss	14.60	9.35	Substandard/doubtful/loss	5.54	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	92.24%	92.45%
OAEM	–	–	OAEM	2.05	3.98
Substandard/doubtful/loss	–	–	Substandard/doubtful/loss	5.71	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:

	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	\$ 587	\$ 585	\$ 1,172	\$ 54,688	\$ 55,860	
Production and intermediate-term	1,565	–	1,565	54,441	56,006	
Loans to cooperatives	–	–	–	1,745	1,745	
Processing and marketing	–	–	–	34,294	34,294	
Farm-related business	–	–	–	112	112	
Communication	–	–	–	7,384	7,384	
Rural residential real estate	344	–	344	7,265	7,609	
International	–	–	–	1,891	1,891	
Total	\$ 2,496	\$ 585	\$ 3,081	\$ 161,820	\$ 164,901	

	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:

	September 30, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	\$ 2,075	\$ 1,007
Production and intermediate-term	4,962	4,744
Rural residential real estate	—	28
Total	<u>\$ 7,037</u>	<u>\$ 5,779</u>
Accruing restructured loans:		
Real estate mortgage	\$ 505	\$ 1,633
Production and intermediate-term	2,809	2,321
Rural residential real estate	155	134
Total	<u>\$ 3,469</u>	<u>\$ 4,088</u>
Accruing loans 90 days or more past due:		
Total	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	\$ 10,506	\$ 9,867
Other property owned	2,494	2,761
Total nonperforming assets	<u>\$ 13,000</u>	<u>\$ 12,628</u>
Non-accrual loans as a percentage of total loans	4.29%	3.77%
Nonperforming assets as a percentage of total loans and other property owned	7.80%	8.09%
Nonperforming assets as a percentage of capital	<u>23.28%</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.

	September 30, 2021	December 31, 2020
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 4,898	\$ 135
Past due	2,139	5,644
Total	<u>\$ 7,037</u>	<u>\$ 5,779</u>
Impaired accrual loans:		
Restructured	\$ 3,469	\$ 4,088
90 days or more past due	—	—
Total	<u>\$ 3,469</u>	<u>\$ 4,088</u>
Total impaired loans	<u>\$ 10,506</u>	<u>\$ 9,867</u>
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	\$ 383	\$ 459	\$ 24	\$ 355	\$ 2	\$ 366	\$ 7
Production and intermediate-term	422	402	22	391	3	403	8
Rural residential real estate	45	44	6	41	—	43	1
Total	<u>\$ 850</u>	<u>\$ 905</u>	<u>\$ 52</u>	<u>\$ 787</u>	<u>\$ 5</u>	<u>\$ 812</u>	<u>\$ 16</u>
With no related allowance for credit losses:							
Real estate mortgage	\$ 2,197	\$ 2,582	\$ —	\$ 2,034	\$ 13	\$ 2,099	\$ 41
Production and intermediate-term	7,349	8,528	—	6,805	42	7,023	136
Rural residential real estate	110	108	—	102	1	105	2
Total	<u>\$ 9,656</u>	<u>\$ 11,218</u>	<u>\$ —</u>	<u>\$ 8,941</u>	<u>\$ 56</u>	<u>\$ 9,227</u>	<u>\$ 179</u>
Total impaired loans:							
Real estate mortgage	\$ 2,580	\$ 3,041	\$ 24	\$ 2,389	\$ 15	\$ 2,465	\$ 48
Production and intermediate-term	7,771	8,930	22	7,196	45	7,426	144
Rural residential real estate	155	152	6	143	1	148	3
Total	<u>\$ 10,506</u>	<u>\$ 12,123</u>	<u>\$ 52</u>	<u>\$ 9,728</u>	<u>\$ 61</u>	<u>\$ 10,039</u>	<u>\$ 195</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 June 30, 2021	\$ 536	\$ 439	\$ 300	\$ 88	\$ –	\$ 75	\$ 21	\$ 1,459
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	–	–	–	–	–	–	–	–
Provision for loan losses	57	154	69	(13)	–	9	(2)	274
Balance at September 30, 2021	\$ 593	\$ 593	\$ 369	\$ 75	\$ –	\$ 84	\$ 19	\$ 1,733
Balance at December 31, 2020	\$ 572	\$ 390	\$ 307	\$ 111	\$ –	\$ 84	\$ 18	\$ 1,482
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	44	–	2	–	–	2	–	48
Provision for loan losses	(23)	203	60	(36)	–	(2)	1	203
Balance at September 30, 2021	\$ 593	\$ 593	\$ 369	\$ 75	\$ –	\$ 84	\$ 19	\$ 1,733
Balance at June 30, 2020	\$ 663	\$ 454	\$ 307	\$ 110	\$ 13	\$ 100	\$ 20	\$ 1,667
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	2	–	–	–	–	–	–	2
Provision for loan losses	(12)	(13)	28	1	–	(3)	–	1
Balance at September 30, 2020	\$ 653	\$ 441	\$ 335	\$ 111	\$ 13	\$ 97	\$ 20	\$ 1,670
Balance at December 31, 2019	\$ 682	\$ 446	\$ 287	\$ 95	\$ 13	\$ 101	\$ 21	\$ 1,645
Charge-offs	(2)	–	–	–	–	–	–	(2)
Recoveries	4	–	–	–	–	–	–	4
Provision for loan losses	(31)	(5)	48	16	–	(4)	(1)	23
Balance at September 30, 2020	\$ 653	\$ 441	\$ 335	\$ 111	\$ 13	\$ 97	\$ 20	\$ 1,670
Allowance on loans evaluated for impairment:								
Individually	\$ 24	\$ 22	\$ –	\$ –	\$ –	\$ 6	\$ –	\$ 52
Collectively	569	571	369	75	–	78	19	1,681
Balance at September 30, 2021	\$ 593	\$ 593	\$ 369	\$ 75	\$ –	\$ 84	\$ 19	\$ 1,733
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	\$ 2,566	\$ 7,931	\$ –	\$ –	\$ –	\$ 154	\$ –	\$ 10,651
Collectively	53,294	48,075	36,151	7,384	–	7,455	1,891	154,250
Balance at September 30, 2021	\$ 55,860	\$ 56,006	\$ 36,151	\$ 7,384	\$ –	\$ 7,609	\$ 1,891	\$ 164,901
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 the three months ended September 30, 2020.

Outstanding Recorded Investment	Three Months Ended September 30, 2021				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Production and intermediate-term	\$ –	\$ 892	\$ –	\$ 892	
Total	\$ –	\$ 892	\$ –	\$ 892	
Post-modification:					
Production and intermediate-term	\$ –	\$ 894	\$ –	\$ 894	\$ –
Total	\$ –	\$ 894	\$ –	\$ 894	\$ –

Outstanding Recorded Investment	Nine Months Ended September 30, 2021				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Real estate mortgage	\$ –	\$ 340	\$ –	\$ 340	
Production and intermediate-term	–	892	–	892	
Rural residential real estate	–	28	–	28	
Total	\$ –	\$ 1,260	\$ –	\$ 1,260	
Post-modification:					
Real estate mortgage	\$ –	\$ 338	\$ –	\$ 338	\$ –
Production and intermediate-term	–	894	–	894	–
Rural residential real estate	–	28	–	28	–
Total	\$ –	\$ 1,260	\$ –	\$ 1,260	\$ –

Outstanding Recorded Investment	Nine Months Ended September 30, 2020				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Rural residential real estate	\$ –	\$ 21	\$ –	\$ 21	
Total	\$ –	\$ 21	\$ –	\$ 21	
Post-modification:					
Rural residential real estate	\$ –	\$ 21	\$ –	\$ 21	\$ –
Total	\$ –	\$ 21	\$ –	\$ 21	\$ –

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.

Defaulted troubled debt restructurings:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
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	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Real estate mortgage	\$ 1,940	\$ 1,633	\$ 1,435	\$ –
Production and intermediate-term	7,771	7,010	4,962	4,689
Rural residential real estate	155	134	–	–
Total loans	\$ 9,866	\$ 8,777	\$ 6,397	\$ 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 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 \$139 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.

		September 30, 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	\$	798	\$	-	\$	798
Other property owned		2,494		-		2,678
Nonrecurring Assets	\$	3,292	\$	-	\$	3,476
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	81	\$	81	\$	-
Loans		161,648		-		162,506
Other Financial Assets	\$	161,729	\$	81	\$	162,587
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	111,420	\$	-	\$	112,173
Other Financial Liabilities	\$	111,420	\$	-	\$	112,173
		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
Nonrecurring Assets	\$	3,288	\$	-	\$	3,491
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	192	\$	192	\$	-
Loans		151,417		-		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	\$ 3,476	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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Pension	\$ 176	\$ 120	\$ 529	\$ 360
401(k)	21	23	64	62
Total	\$ 197	\$ 143	\$ 593	\$ 422

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 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 \$1,322 and \$1,377 which will be recorded as patronage refunds from other Farm Credit institutions.