



# SOUTHERN AGCREDIT

*Financial Solutions for Agriculture*

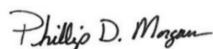
**Stockholders' Quarterly Financial Report**  
**For the Quarter Ended March 31, 2021**

## REPORT OF MANAGEMENT

The consolidated financial statements of Southern AgCredit, ACA (association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The board of directors has overall responsibility for the association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations.

The undersigned certify that we have reviewed this report, that it has been prepared 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.



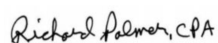
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Phillip D. Morgan  
Chief Executive Officer  
May 10, 2021



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Kevin Rhodes  
Chairman, Board of Directors  
May 10, 2021



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Richard Palmer, CPA  
Chief Financial Officer  
May 10, 2021

## **SOUTHERN AGCREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(dollars in thousands, except as noted)*

The following commentary reviews the financial performance of the Southern AgCredit, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended March 31, 2021. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2020 Annual Report to Stockholders.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the association's audit committee.

### **Significant Events:**

In December 2020, the association's board of directors declared a patronage in the amount of \$21,092,833 to stockholders, including \$10,426,868 to be paid in cash, and \$10,665,965 in the form of non-qualified allocated equity on behalf of the individual stockholders and retained by the association. Nonqualified allocated equities are not taxable to the stockholder. The cash patronage was disbursed to the association stockholders in February 2021. The 2020 cash patronage represents a record return of earnings to the stockholders of the association.

The association continues to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the association while offering competitive loan products that meet the financial needs of agricultural producers.

### **Current Conditions Related To COVID-19:**

The United States has been operating under a presidentially declared emergency since March 13, 2020 due to the Coronavirus Disease 2019 (also referred to as COVID-19). While normal working conditions changed with the implementation of a more remote working environment, Southern AgCredit has continued to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Through March 31, 2021 and as of the date of this report, almost all of the COVID-19 requested deferrals have returned to normal accruing status. With the vaccine roll outs, and the infection and death rates dramatically decreasing, the virus seems to be under control. We have been and will continue to monitor our loan portfolio overall and will stay particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, food processing, timber and beef cattle should the virus make a return due to a different variant. During our latest analysis of our allowance for loan losses, we did take into consideration the possible effects of COVID-19. As a result of the current trend and positive outlook, management reversed its reserves related to COVID-19 in their entirety.

### **Loan Portfolio:**

Total loans outstanding at March 31, 2021, including nonaccrual loans and sales contracts, were \$1,209,131,844 compared to \$1,207,848,750 at December 31, 2020, reflecting an increase of 0.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at March 31, 2021, compared to 0.3 percent at December 31, 2020.

The association recorded no recoveries or charge-offs for the quarter ended March 31, 2021, or for the same period in 2020. The association's allowance for loan losses was 0.1 percent of total loans outstanding as of March 31, 2021, and December 31, 2020, respectively.

#### *Agribusiness Loan Program*

The association utilizes the Mississippi Development Authority's Agribusiness Enterprise Loan Program (ABE) to lower the cost of financing for its borrowers. The ABE loan program is designed to provide a percentage of low-cost state financing that is combined with private financial lending institutions' loan proceeds to encourage loans to the agribusiness industry in the state.

The association guarantees payment of the borrower's ABE loan to the Mississippi Development Authority (MDA) and, therefore, the amount of ABE loans outstanding and due to MDA is included in "Loans" on the consolidated balance sheet with an offsetting liability at "Guaranteed obligations to government entities." ABE loans totaled \$13,749,073 and \$13,959,080 as of March 31, 2021 and December 31, 2020, respectively.

## Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association's components and trends of high-risk assets.

	March 31, 2021		December 31, 2020	
	Amount	%	Amount	%
Nonaccrual	\$ 2,975,997	77.0%	\$ 4,047,501	87.1%
Formally restructured	671,663	17.4%	386,829	8.3%
Other property owned, net	215,532	5.6%	215,532	4.6%
Total	<u>\$ 3,863,192</u>	<u>100.0%</u>	<u>\$ 4,649,862</u>	<u>100.0%</u>

The balance of nonaccrual volume as of March 31, 2021 is primarily secured by real estate with a total specific allowance of \$151,230 related to four loans. The decrease in nonaccrual volume since the prior year end is primarily made up of a loan to one borrower which we foreclosed on in the first quarter 2021.

The balance of other property owned was \$215,532 as of March 31, 2021, and consisted of three unrelated properties.

## Investments:

During 2010, the association exchanged \$35,192,440 of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transactions since the loans were at a market rate, guaranteed by Farmer Mac and the servicing fee adequately compensates the association for the cost to service the loans. These AMBS are included in the association's Consolidated Balance Sheet as held-to-maturity investments at an amortized cost balance of \$3,352,886 at March 31, 2021. The association continues to service the loans included in those transactions.

## Results of Operations:

The association had net income of \$5,822,445 for the three months ended March 31, 2021, as compared to net income of \$5,280,750 for the same period in 2020, reflecting an increase of 10.3 percent. Net interest income was \$7,634,515 for the three months ended March 31, 2021, compared to \$6,933,572 for the same period in 2020.

	Three Months Ended			
	March 31, 2021		March 31, 2020	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 1,206,883,400	\$ 12,485,496	\$ 1,115,199,697	\$ 13,644,327
Investments	3,402,888	33,404	4,836,362	58,221
Total interest-earning assets	1,210,286,288	12,518,900	1,120,036,059	13,702,548
Interest-bearing liabilities	1,034,627,779	4,884,385	957,973,379	6,768,976
Impact of capital	<u>\$ 175,658,509</u>		<u>\$ 162,062,680</u>	
Net interest income		<u>\$ 7,634,515</u>		<u>\$ 6,933,572</u>

	2021	2020
	Average Yield	Average Yield
Yield on loans	4.20%	4.92%
Yield on investments	3.98%	4.84%
Total yield on interest-earning assets	4.19%	4.92%
Cost of interest-bearing liabilities	1.91%	2.84%
Interest rate spread	2.28%	2.08%
Net interest income as a percentage of average earning assets	2.56%	2.49%

<b>Three months ended:</b>			
<b>March 31, 2021 vs. March 31, 2020</b>			
	<b>Increase (decrease) due to</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
Interest income - loans	<b>\$ 1,112,442</b>	<b>\$ (2,271,273)</b>	<b>\$ (1,158,831)</b>
Interest income - investments	<b>(17,113)</b>	<b>(7,704)</b>	<b>(24,817)</b>
Total interest income	<b>1,095,329</b>	<b>(2,278,977)</b>	<b>(1,183,648)</b>
Interest expense	<b>537,150</b>	<b>(2,421,741)</b>	<b>(1,884,591)</b>
Net interest income	<b>\$ 558,179</b>	<b>\$ 142,764</b>	<b>\$ 700,943</b>

Interest income for the three months ended March 31, 2021, decreased by \$1,183,648, or 8.6 percent respectively, from the same period of 2020, primarily due to declines in yields on earning assets mitigated by an increase in average loan volume. Interest expense for the three months ended March 31, 2021, decreased by \$1,884,591, or 27.8 percent, from the same period of 2020 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the first quarter of 2021 was \$1,206,883,400, compared to \$1,115,199,697 in the first quarter of 2020. The average net interest rate spread on the loan portfolio for the first quarter of 2021 was 2.28 percent, compared to 2.08 percent in the first quarter of 2020.

The association's return on average assets for the three months ended March 31, 2021, was 1.89 percent compared to 1.82 percent for the same period in 2020. The association's return on average equity for the three months ended March 31, 2021, was 12.67 percent, compared to 12.14 percent for the same period in 2020.

#### **Liquidity and Funding Sources:**

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Note payable to the bank	<b>\$ 1,042,566,957</b>	<b>\$ 1,032,140,583</b>
Accrued interest on note payable	<b>1,680,785</b>	<b>1,729,707</b>
Total	<b>\$ 1,044,247,742</b>	<b>\$ 1,033,870,290</b>

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of \$1,042,566,957 as of March 31, 2021, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 1.86 percent at March 31, 2021. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2020, is due to increased borrowing needs at the association. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were \$150,836,993 at March 31, 2021. The maximum amount the association may borrow from the bank as of March 31, 2021, was \$1,203,220,554 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

#### **Capital Resources:**

The association's capital position increased by \$5,862,974 at March 31, 2021, compared to December 31, 2020. The association's debt as a percentage of members' equity was 5.63:1 as of March 31, 2021, compared to 5.82:1 as of December 31, 2020.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2021, the association exceeded all minimum regulatory capital requirements.

**Significant Recent Accounting Pronouncements:**

Refer to Note 1 – “Organization and Significant Accounting Policies” in this quarterly report for disclosures of recent accounting pronouncements which may impact the associations consolidated financial position and results of operations and for critical accounting policies.

**Relationship With the Farm Credit Bank of Texas:**

The association’s financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder’s investment in the association. The Management’s Discussion and Analysis and Notes to Financial Statements contained in the 2020 Annual Report of Southern AgCredit, ACA more fully describe the association’s relationship with the bank.

The annual and quarterly stockholder reports of the bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the bank are also available on its website at [www.farmcreditbank.com](http://www.farmcreditbank.com).

The association’s quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Southern AgCredit, ACA, 402 West Parkway Place, Ridgeland, MS 39157 or calling 601-499-2820. The annual and quarterly stockholder reports for the association are also available on its website at [www.southernagcredit.com](http://www.southernagcredit.com). Copies of the association’s quarterly stockholder reports can also be requested by e-mailing [dlsouthernagcreditadmin@farmcreditbank.com](mailto:dlsouthernagcreditadmin@farmcreditbank.com).

**SOUTHERN AGCREDIT, ACA**

**CONSOLIDATED BALANCE SHEETS**

	<b>March 31, 2021 (unaudited)</b>	<b>December 31, 2020</b>
<b><u>ASSETS</u></b>		
Cash	\$ 10,389	\$ 7,778
Investments	3,352,886	3,533,263
Loans	1,209,131,844	1,207,848,750
Less: allowance for loan losses	1,642,476	1,486,911
Net loans	1,207,489,368	1,206,361,839
Accrued interest receivable		
Loans	9,222,410	8,856,431
Investments	41,268	44,547
Investment in and receivable from the Farm		
Credit Bank of Texas:		
Capital stock	19,711,030	19,711,030
Other	3,258,906	2,167,795
Other property owned, net	215,532	215,532
Premises and equipment, net	9,256,218	9,082,733
Other assets	1,656,045	960,965
Total assets	\$ 1,254,214,052	\$ 1,250,941,913
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 1,042,566,957	\$ 1,032,140,583
Guaranteed obligations to government entities	13,749,073	13,959,080
Advance conditional payments	127,708	149,917
Accrued interest payable	1,680,785	1,729,707
Drafts outstanding	1,123,863	71,456
Patronage distributions payable	-	10,426,868
Other liabilities	5,679,879	9,041,489
Total liabilities	1,064,928,265	1,067,519,100
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	4,851,910	4,811,195
Additional paid-in capital	10,238,891	10,238,891
Unallocated retained earnings	174,624,436	168,801,991
Accumulated other comprehensive income (loss)	(429,450)	(429,264)
Total members' equity	189,285,787	183,422,813
Total liabilities and members' equity	\$ 1,254,214,052	\$ 1,250,941,913

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

**SOUTHERN AGCREDIT, ACA**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited)

	<b>Quarter Ended</b>	
	<b>March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b><u>INTEREST INCOME</u></b>		
Loans	\$ 12,485,496	\$ 13,644,327
Investments	33,404	58,221
Total interest income	12,518,900	13,702,548
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the Farm Credit Bank of Texas	4,884,365	6,768,936
Advance conditional payments	20	40
Total interest expense	4,884,385	6,768,976
Net interest income	7,634,515	6,933,572
<b><u>PROVISION FOR LOAN LOSSES</u></b>		
	156,653	254,000
Net interest income after provision for loan losses	7,477,862	6,679,572
<b><u>NONINTEREST INCOME</u></b>		
Income from the Farm Credit Bank of Texas:		
Patronage income	1,668,879	1,260,099
Loan fees	113,945	110,088
Financially related services income	140	134
Gain (loss) on other property owned, net	(4,205)	(13,525)
Gain (loss) on sale of premises and equipment, net	1,533	-
Other noninterest income	44,238	295,712
Total noninterest income	1,824,530	1,652,508
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	1,775,957	1,477,675
Occupancy and equipment	401,490	291,056
Insurance Fund premiums	360,381	166,018
Other components of net periodic postretirement benefit cost	36,876	41,364
Other noninterest expense	905,243	1,075,217
Total noninterest expenses	3,479,947	3,051,330
Income before income taxes	5,822,445	5,280,750
<b>NET INCOME</b>	<b>5,822,445</b>	<b>5,280,750</b>
Other comprehensive income:		
Change in postretirement benefit plans	(186)	(2,370)
Other comprehensive income, net of tax	(186)	(2,370)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 5,822,259</b>	<b>\$ 5,278,380</b>

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



SOUTHERN AGCREDIT, ACA

**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Additional Paid-in-Capital</u>	<u>Retained Earnings Unallocated</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2019	\$ 4,575,675	\$ 10,238,891	\$ 157,725,330	\$ (313,770)	\$ 172,226,126
Comprehensive income	-	-	5,280,750	(2,370)	5,278,380
Capital stock/participation certificates and allocated retained earnings issued	210,150				210,150
Capital stock/participation certificates and allocated retained earnings retired	(180,935)				(180,935)
<b>Balance at March 31, 2020</b>	<u>\$ 4,604,890</u>	<u>\$ 10,238,891</u>	<u>\$ 163,006,080</u>	<u>\$ (316,140)</u>	<u>\$ 177,533,721</u>
Balance at December 31, 2020	\$ 4,811,195	\$ 10,238,891	\$ 168,801,991	\$ (429,264)	\$ 183,422,813
Comprehensive income	-	-	5,822,445	(186)	5,822,259
Capital stock/participation certificates and allocated retained earnings issued	281,645				281,645
Capital stock/participation certificates and allocated retained earnings retired	(240,930)				(240,930)
<b>Balance at March 31, 2021</b>	<u>\$ 4,851,910</u>	<u>\$ 10,238,891</u>	<u>\$ 174,624,436</u>	<u>\$ (429,450)</u>	<u>\$ 189,285,787</u>

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

**SOUTHERN AGCREDIT, ACA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*(Unaudited)*

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

Southern AgCredit, ACA, including its wholly-owned subsidiaries, Southern AgCredit, PCA and Southern AgCredit, FLCA (collectively called “the association”), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Adams, Amite, Carroll, Claiborne, Clarke, Copiah, Covington, Forrest, Franklin, George, Greene, Grenada, Hancock, Harrison, Hinds, Holmes, Humphreys, Issaquena, Jackson, Jasper, Jefferson, Jefferson Davis, Jones, Kemper, Lamar, Lauderdale, Lawrence, Leake, Leflore, Lincoln, Madison, Marion, Montgomery, Neshoba, Newton, Pearl River, Perry, Pike, Rankin, Scott, Sharkey, Simpson, Smith, Stone, Walthall, Warren, Washington, Wayne, Wilkinson and Yazoo in the state of Mississippi, as well as the parishes of Bienville, Bossier, Caddo, Claiborne, DeSoto, Jackson, Lincoln, Ouachita (west of Ouachita River), Red River, Union and Webster in the state of Louisiana. In addition, the association is the single owner of Parkway Place Investments, LLC, which was organized for the purpose of holding and managing foreclosed property for which the assets, liabilities and results of operation have been consolidated in the association’s financial statements. The association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2020, as contained in the 2020 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2020, as contained in the 2020 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2021. Descriptions of the significant accounting policies are included in the 2020 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In January 2021, the Financial Accounting Standards Board (FASB) issued an update whereby certain derivative instruments may be modified to change the rate used for margining, discounting, or contract price alignment. An entity may elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments do not apply to contract modifications made or new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022. The institution is evaluating the impact of adoption on the institution’s financial condition and its results of operations.

In March 2020, the FASB issued guidance entitled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The institution is evaluating the impact of adoption on the institution’s financial condition and its results of operations.

In December 2019, the FASB issued guidance entitled “Simplifying the Accounting for Income Taxes.” This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting

that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted, and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the institution's financial condition or results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance became effective for fiscal years ending after December 15, 2020. The guidance was applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but did impact the employee benefit plan disclosures.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended March 31, 2021, are not necessarily indicative of the results to be expected for the year ended December 31, 2021. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

**NOTE 2 — INVESTMENTS:**

The association may hold mission-related and other investments. The Farm Credit Administration approves mission-related programs and other mission-related investments. In January 2010, \$35,192,440 of agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

<b>March 31, 2021</b>				
<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Weighted Average Yield</b>
\$3,352,886	\$ 12,517	\$ -	\$3,365,403	3.90 %
<b>December 31, 2020</b>				
<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Weighted Average Yield</b>
\$ 3,533,263	\$ 43,393	\$ -	\$ 3,576,656	3.95 %

**NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:**

A summary of loans follows:

<b>Loan Type</b>	<b>March 31, 2021 Amount</b>	<b>December 31, 2020 Amount</b>
Production agriculture:		
Real estate mortgage	\$ 1,027,739,894	\$ 1,012,252,339
Production and intermediate term	96,498,078	103,465,293
Agribusiness:		
Loans to cooperatives	2,815,973	4,846,974
Processing and marketing	35,517,393	40,381,454
Farm-related business	6,791,490	6,805,634
Communication	22,606,836	22,680,883
Energy	12,803,587	13,002,863
Water and waste water	1,712,994	1,736,657
Rural residential real estate	2,645,599	2,676,653
Total	<b>\$ 1,209,131,844</b>	<b>\$ 1,207,848,750</b>

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2021:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations	Participations	Participations	Participations	Participations	Participations
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 8,583,681	\$ 3,500,177	\$ 127,778	\$ -	\$ 8,711,459	\$ 3,500,177
Production and intermediate term	12,826,792	36,224,524	-	-	12,826,792	36,224,524
Agribusiness	44,595,355	-	-	-	44,595,355	-
Communication	22,606,836	-	-	-	22,606,836	-
Energy	12,803,587	-	-	-	12,803,587	-
Water and waste water	1,712,994	-	-	-	1,712,994	-
Total	<u>\$103,129,245</u>	<u>\$ 39,724,701</u>	<u>\$ 127,778</u>	<u>\$ -</u>	<u>\$103,257,023</u>	<u>\$ 39,724,701</u>

The association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were \$127,708 and \$149,917 at March 31, 2021, and December 31, 2020, respectively.

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	March 31, 2021	December 31, 2020
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 2,932,649	\$ 4,000,295
Production and intermediate term	43,348	47,206
Total nonaccrual loans	<u>2,975,997</u>	<u>4,047,501</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	596,793	311,271
Production and intermediate term	74,870	75,558
Total accruing restructured loans	<u>671,663</u>	<u>386,829</u>
Total nonperforming loans	<u>3,647,660</u>	<u>4,434,330</u>
Other property owned	215,532	215,532
Total nonperforming assets	<u>\$ 3,863,192</u>	<u>\$ 4,649,862</u>

One credit quality indicator utilized by the association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	<b>March 31, 2021</b>		December 31, 2020	
Real estate mortgage				
Acceptable	<b>97.97</b>	%	97.80	%
OAEM	<b>1.49</b>		1.55	
Substandard/doubtful	<b>0.54</b>		0.65	
	<b>100.00</b>		100.00	
Production and intermediate term				
Acceptable	<b>99.85</b>		97.99	
OAEM	<b>0.11</b>		1.96	
Substandard/doubtful	<b>0.04</b>		0.05	
	<b>100.00</b>		100.00	
Loans to cooperatives				
Acceptable	<b>100.00</b>		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	<b>100.00</b>		100.00	
Processing and marketing				
Acceptable	<b>94.05</b>		93.64	
OAEM	<b>5.95</b>		6.36	
Substandard/doubtful	-		-	
	<b>100.00</b>		100.00	
Farm-related business				
Acceptable	<b>100.00</b>		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	<b>100.00</b>		100.00	
Communication				
Acceptable	<b>100.00</b>		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	<b>100.00</b>		100.00	
Energy				
Acceptable	<b>100.00</b>		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	<b>100.00</b>		100.00	
Water and waste water				
Acceptable	<b>100.00</b>		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	<b>100.00</b>		100.00	
Rural residential real estate				
Acceptable	<b>100.00</b>		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	<b>100.0</b>		100.0	
Total loans				
Acceptable	<b>98.05</b>		97.77	
OAEM	<b>1.48</b>		1.68	
Substandard/doubtful	<b>0.47</b>		0.55	
	<b>100.00</b>	%	100.00	%

The following tables provide an age analysis of past due loans (including accrued interest) as of:

<u>March 31, 2021</u>	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 2,429,971	\$ 1,484,065	\$ 3,914,036	\$ 1,032,066,469	\$ 1,035,980,505
Production and intermediate term	149,021	-	149,021	97,265,016	97,414,037
Loans to cooperatives	-	-	-	2,817,605	2,817,605
Processing and marketing	-	-	-	35,548,863	35,548,863
Farm-related business	-	-	-	6,807,794	6,807,794
Communication	-	-	-	22,608,084	22,608,084
Energy	-	-	-	12,809,304	12,809,304
Water and waste water	-	-	-	1,713,094	1,713,094
Rural residential real estate	-	-	-	2,654,968	2,654,968
<b>Total</b>	<b>\$ 2,578,992</b>	<b>\$ 1,484,065</b>	<b>\$ 4,063,057</b>	<b>\$ 1,214,291,197</b>	<b>\$ 1,218,354,254</b>

<u>December 31, 2020</u>	30-89 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	\$ 5,602,929	\$ 2,085,121	\$ 7,688,050	\$ 1,012,736,864	\$ 1,020,424,914
Production and intermediate term	346,832	-	346,832	103,698,146	104,044,978
Loans to cooperatives	-	-	-	4,848,724	4,848,724
Processing and marketing	-	-	-	40,460,278	40,460,278
Farm-related business	-	-	-	6,813,134	6,813,134
Communication	-	-	-	22,682,157	22,682,157
Energy	-	-	-	13,008,773	13,008,773
Water and waste water	-	-	-	1,736,760	1,736,760
Rural residential real estate	-	-	-	2,685,463	2,685,463
<b>Total</b>	<b>\$ 5,949,761</b>	<b>\$ 2,085,121</b>	<b>\$ 8,034,882</b>	<b>\$ 1,208,670,299</b>	<b>\$ 1,216,705,181</b>

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

A restructuring of a debt constitutes a troubled debt restructuring 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. Troubled debt restructurings (TDRs) are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of March 31, 2021, the total recorded investment of troubled debt restructured loans was \$957,519, including \$285,856 classified as nonaccrual and \$671,663 classified as accrual, with no specific reserve. There were no commitments to lend funds to borrowers whose loan terms have been modified in a trouble debt restructuring as of March 31, 2021 and December 31, 2020.

There were no troubled debt restructurings occurring during the three months ended March 31, 2021 and 2020, respectively. The balance of loans formally restructured prior to January 1, 2021, were \$970,438. In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The predominant form of concession granted for troubled debt restructuring includes extension of terms and interest rate decreases. Types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Real estate mortgage	\$ 882,649	\$ 894,880	\$ 285,856	\$ 583,609
Production and intermediate term	74,870	75,558	-	-
Total	\$ 957,519	\$ 970,438	\$ 285,856	\$ 583,609

\*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	March 31, 2021			December 31, 2020		
	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 975,763	\$ 975,763	\$ 151,230	\$ 1,751,619	\$ 1,751,619	\$ 170,242
Production and intermediate term	-	-	-	-	-	-
Total	\$ 975,763	\$ 975,763	\$ 151,230	\$ 1,751,619	\$ 1,751,619	\$ 170,242
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 2,551,083	\$ 2,557,818	\$ -	\$ 2,558,605	\$ 2,561,279	\$ -
Production and intermediate term	117,715	118,313	-	122,257	122,852	-
Total	\$ 2,668,798	\$ 2,676,131	\$ -	\$ 2,680,862	\$ 2,684,131	\$ -
Total impaired loans:						
Real estate mortgage	\$ 3,526,846	\$ 3,533,581	\$ -	\$ 4,310,224	\$ 4,312,898	\$ 170,242
Production and intermediate term	117,715	118,313	151,230	122,257	122,852	-
Total	\$ 3,644,561	\$ 3,651,894	\$ 151,230	\$ 4,432,481	\$ 4,435,750	\$ 170,242

<sup>a</sup> Unpaid principal balance represents the recorded principal balance of the loan.

	For the Quarter & Year Ended March 31, 2021		For the Quarter & Year Ended March 31, 2020	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	\$ 977,701	\$ -	\$ 858,132	\$ -
Production and intermediate term	-	-	-	-
Total	\$ 977,701	\$ -	\$ 858,132	\$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 2,534,851	\$ 98,350	\$ 3,125,965	\$ 12,697
Production and intermediate term	121,756	5,409	81,062	13,052
Total	\$ 2,656,607	\$ 103,759	\$ 3,207,027	\$ 25,749
Total impaired loans:				
Real estate mortgage	\$ 3,512,552	\$ 98,350	\$ 3,984,097	\$ 12,697
Production and intermediate term	121,756	5,409	81,062	13,052
Total	\$ 3,634,308	\$ 103,759	\$ 4,065,159	\$ 25,749



A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
<b>Allowance for Credit Losses:</b>							
Balance at December 31, 2020	\$ 1,141,229	\$ 138,280	\$ 173,548	\$ 15,296	\$ 15,542	\$ 3,016	\$ 1,486,911
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	220,240	1,498	(65,008)	187	(1,340)	1,076	156,653
Other	-	316	(375)	35	(1,064)	-	(1,088)
Balance at March 31, 2021	<u>\$ 1,361,469</u>	<u>\$ 140,094</u>	<u>\$ 108,165</u>	<u>\$ 15,518</u>	<u>\$ 13,138</u>	<u>\$ 4,092</u>	<u>\$ 1,642,476</u>
Ending Balance:							
Individually evaluated for impairment	\$ 151,230	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 151,230
Collectively evaluated for impairment	1,210,239	140,094	108,165	15,518	13,138	4,092	1,491,246
Balance at March 31, 2021	<u>\$ 1,361,469</u>	<u>\$ 140,094</u>	<u>\$ 108,165</u>	<u>\$ 15,518</u>	<u>\$ 13,138</u>	<u>\$ 4,092</u>	<u>\$ 1,642,476</u>
Balance at December 31, 2019	\$ 917,520	\$ 138,406	\$ 120,734	\$ 13,909	\$ 11,650	\$ 2,471	\$ 1,204,690
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	225,048	37,213	(4,083)	(461)	(4,310)	593	254,000
Other	-	(4,426)	3,200	11	1,739	-	524
Balance at March 31, 2020	<u>\$ 1,142,568</u>	<u>\$ 171,193</u>	<u>\$ 119,851</u>	<u>\$ 13,459</u>	<u>\$ 9,079</u>	<u>\$ 3,064</u>	<u>\$ 1,459,214</u>
Ending Balance:							
Individually evaluated for impairment	\$ 28,912	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,912
Collectively evaluated for impairment	1,113,656	171,193	119,851	13,459	9,079	3,064	1,430,302
Balance at March 31, 2020	<u>\$ 1,142,568</u>	<u>\$ 171,193</u>	<u>\$ 119,851</u>	<u>\$ 13,459</u>	<u>\$ 9,079</u>	<u>\$ 3,064</u>	<u>\$ 1,459,214</u>
<b>Recorded Investments in Loans Outstanding:</b>							
Ending Balance at March 31, 2021	<u>\$1,035,980,504</u>	<u>\$ 97,414,037</u>	<u>\$ 45,174,262</u>	<u>\$ 22,608,084</u>	<u>\$ 14,522,399</u>	<u>\$2,654,968</u>	<u>\$1,218,354,254</u>
Individually evaluated for impairment	\$ 3,529,443	\$ 118,218	\$ -	\$ -	\$ -	\$ -	\$ 3,647,661
Collectively evaluated for impairment	<u>\$1,032,451,061</u>	<u>\$ 97,295,819</u>	<u>\$ 45,174,262</u>	<u>\$ 22,608,084</u>	<u>\$ 14,522,399</u>	<u>\$2,654,968</u>	<u>\$1,214,706,593</u>
Ending Balance at December 31, 2020	<u>\$ 963,095,946</u>	<u>\$ 93,094,081</u>	<u>\$ 53,726,815</u>	<u>\$ 16,193,642</u>	<u>\$ 12,680,553</u>	<u>\$2,396,089</u>	<u>\$1,141,187,125</u>
Individually evaluated for impairment	\$ 4,019,902	\$ 81,364	\$ -	\$ -	\$ -	\$ -	\$ 4,101,266
Collectively evaluated for impairment	<u>\$ 959,076,044</u>	<u>\$ 93,012,717</u>	<u>\$ 53,726,815</u>	<u>\$ 16,193,642</u>	<u>\$ 12,680,553</u>	<u>\$2,396,089</u>	<u>\$1,137,085,859</u>

## NOTE 4 — CAPITAL:

The association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

### Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers		As of March 31, 2021	
Common equity tier 1 ratio	7.00%		13.97%	
Tier 1 capital ratio	8.50%		13.97%	
Total capital ratio	10.50%		14.10%	
Permanent capital ratio	7.00%		13.99%	
<b>Non-risk-adjusted:</b>				
Tier 1 leverage ratio	5.00%		13.49%	
UREE leverage ratio	1.50%		9.84%	
	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
<b>Numerator:</b>				
Unallocated retained earnings	78,552,170	78,552,170	78,552,170	78,552,170
Paid-in capital	10,238,891	10,238,891	10,238,891	10,238,891
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,816,245	4,816,245	4,816,245	4,816,245
Other required member purchased stock held <5 years				
Other required member purchased stock held ≥ 5 years but < 7 years				
Other required member purchased stock held ≥ 7 years				
Allocated equities:				
Allocated equities held <5 years				
Allocated equities held ≥ 5 years but < 7 years				
Allocated equities held ≥ 7 years	57,546,715	57,546,715	57,546,715	57,546,715
Nonqualified allocated equities not subject to retirement	34,436,923	34,436,923	34,436,923	34,436,923
Non-cumulative perpetual preferred stock		-	-	-
Other preferred stock subject to certain limitations			-	-
Subordinated debt subject to certain limitation				
Allowance for loan losses and reserve for credit losses subject to certain limitations			1,551,878	
<b>Regulatory Adjustments and Deductions:</b>				
Amount of allocated investments in other System institutions	(19,632,495)	(19,632,495)	(19,632,495)	(19,632,495)
Other regulatory required deductions	-	-	-	-
	165,958,449	165,958,449	167,510,327	165,958,449
<b>Denominator:</b>				
Risk-adjusted assets excluding allowance	1,207,707,720	1,207,707,720	1,207,707,720	1,207,707,720
<b>Regulatory Adjustments and Deductions:</b>				
Regulatory deductions included in total capital	(19,632,495)	(19,632,495)	(19,632,495)	(19,632,495)
Allowance for loan losses				(1,486,724)
	1,188,075,225	1,188,075,225	1,188,075,225	1,186,588,501

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	78,552,170	78,552,170
Paid-in capital	10,238,891	10,238,891
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,816,245	-
Other required member purchased stock held <5 years		
Other required member purchased stock held ≥ 5 years but < 7 years		
Other required member purchased stock held ≥7 years		
Allocated equities:		
Allocated equities held <5 years		
Allocated equities held ≥5 years but < 7 years		
Allocated equities held ≥7	57,546,715	-
Nonqualified allocated equities not subject to retirement	34,436,923	34,436,923
Non-cumulative perpetual preferred stock	-	
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitation		
Allowance for loan losses and reserve for credit losses subject to certain limitations		
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(19,632,495)	(2,148,365)
Other regulatory required deductions	-	-
	<b>165,958,449</b>	<b>121,079,619</b>
Denominator:		
Total Assets	1,251,692,765	1,251,692,765
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(21,776,637)	(21,776,637)
	<b>1,229,916,128</b>	<b>1,229,916,128</b>

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the three months ended March 31:

	<u>2021</u>	<u>2020</u>
Accumulated other comprehensive income (loss) at January 1	\$(429,264)	\$(313,770)
Amortization of actuarial (gain) loss included		
in salaries and employee benefits	(186)	(2,370)
Other comprehensive income (loss), net of tax	(186)	(2,370)
Accumulated other comprehensive income (loss) at March 31	<u>\$ (429,450)</u>	<u>\$ (316,140)</u>

## NOTE 5 — INCOME TAXES:

Southern AgCredit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Southern AgCredit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Southern AgCredit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended March 31, 2021 and 2020, the net accrued tax liability/benefit was \$0.

## NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 to the 2020 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

<u>March 31, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets held in nonqualified benefit trusts	\$237,081	\$ -	\$ -	\$ 237,081

<u>December 31, 2020</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets held in nonqualified benefit trusts	\$ 278,728	\$ -	\$ -	\$ 278,728

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

<u>March 31, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 824,533	\$ 824,533
Other property owned	-	-	-	-

<u>December 31, 2020</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 1,581,449	\$ 1,581,449
Other property owned	-	-	211,030	211,030

\*Represents the fair value of certain loans that were evaluated for impairment under the authoritative guidance “Accounting by Creditors for Impairment of a Loan.” The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

### Valuation Techniques

As more fully discussed in Note 14 to the 2020 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the association’s assets and liabilities. For a more complete description, see Notes to the 2020 Annual Report to Stockholders.

#### *Loans Evaluated for Impairment*

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases, it also requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans will fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

#### *Other Property Owned*

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

**NOTE 7 — EMPLOYEE BENEFIT PLANS:**

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three ended March 31:

	Other Benefits	
	2021	2020
Service cost	\$ 11,047	\$ 10,520
Interest cost	26,016	30,845
Expected return on plan assets	-	-
Amortization of prior service (credits) costs	(3,375)	(3,375)
Amortization of net actuarial (gain) loss	3,187	1,003
Net periodic benefit cost	<u>\$ 36,876</u>	<u>\$ 38,993</u>

The association's liability for the unfunded accumulated obligation for these benefits at March 31, 2021, was \$3,792,731 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2020, that it expected to contribute \$484,068 to the district's defined benefit pension plan in 2021. As of March 31, 2021, \$121,017 of contributions have been made. The association presently anticipates contributing an additional \$363,051 to fund the defined benefit pension plan in 2021 for a total of \$484,068.

**NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:**

The association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At March 31, 2021, \$83,293,124 of commitments and \$279,667 of commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. Therefore, the association has recognized an estimated risk loss liability, included on the balance sheet with other liabilities, determined on the same basis as the allowance for loan loss is determined. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

**NOTE 9 — SUBSEQUENT EVENTS:**

The association has evaluated subsequent events through May 10, 2021 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 10, 2021.