



# SOUTHERN AGCREDIT

*Financial Solutions for Agriculture*

**Stockholders' Quarterly Financial Report**  
**For the Quarter Ended June 30, 2021**

## REPORT OF MANAGEMENT

The consolidated financial statements of Southern AgCredit, ACA (Agricultural Credit Association), referred to as the 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.

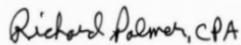
The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.



Phillip D. Morgan  
Chief Executive Officer  
*August 9, 2021*



Kevin Rhodes  
Chairman, Board of Directors  
*August 9, 2021*



Richard Palmer, CPA  
Chief Financial Officer  
*August 9, 2021*

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

The following commentary reviews the financial performance of the Southern AgCredit, ACA for the quarter ended June 30, 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 June 30, 2021 and as of the date of this report, all of the requested COVID-19 deferrals have returned to normal accruing status. While the vaccines continue to roll out, the infection rate is rising again due to new variants. 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, and beef cattle.

### **Loan Portfolio:**

Total loans outstanding at June 30, 2021, including nonaccrual loans and sales contracts, were \$1,224,893,464 compared to \$1,207,848,750 at December 31, 2020, reflecting an increase of 1.4 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.3 percent at June 30, 2021 and December 31, 2020, respectively.

The association recorded \$0 in recoveries and \$47,617 in charge-offs for the quarter ended June 30, 2021, and \$0 in recoveries and \$0 in charge-offs for the same period in 2020. The association's allowance for loan losses was 0.1 percent of total loans outstanding as of June 30, 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 \$14,193,126 and \$13,959,080 as of June 30, 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.

	June 30, 2021		December 31, 2020	
	Amount	%	Amount	%
Nonaccrual	\$ 4,118,813	75.6%	\$ 4,047,501	87.1%
Formally restructured	952,898	17.5%	386,829	8.3%
Other property owned, net	374,682	6.9%	215,532	4.6%
Total	<u>\$ 5,446,393</u>	<u>100.0%</u>	<u>\$ 4,649,862</u>	<u>100.0%</u>

The balance of nonaccrual volume as of June 30, 2021 is primarily secured by real estate with a total specific allowance of \$235,277 related to four loans. The increase in nonaccrual volume since the prior year end is primarily made up of several loans to one borrower totaling \$1,522,658 in the second quarter 2021 offset by two loans that moved from nonaccrual to accrual formally restructured in 2021 totaling \$576,939 and the payoff of one nonaccrual totaling \$771,589 in the first quarter 2021.

The balance of other property owned was \$374,682 as of June 30, 2021 and consisted of four 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 \$2,570,480 at June 30, 2021. The association continues to service the loans included in those transactions.

## Results of Operations:

The association had net income of \$5,857,725 and \$11,679,984 for the three and six months ended June 30, 2021, as compared to net income of \$5,425,824 and \$10,704,204 for the same period in 2020, reflecting an increase of 8.0 percent and 9.1 percent. Net interest income was \$7,556,424 and \$15,190,940 for the three and six months ended June 30, 2021, compared to \$6,885,727 and \$13,819,298 for the same period in 2020.

	Six Months Ended			
	June 30, 2021		June 30, 2020	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 1,211,593,565	\$ 24,935,976	\$ 1,128,343,172	\$ 26,711,039
Investments	3,195,367	63,507	4,468,625	103,802
Total interest-earning assets	1,214,788,932	24,999,483	1,132,811,797	26,814,841
Interest-bearing liabilities	1,040,263,869	9,808,543	971,959,467	12,995,543
Impact of capital	<u>\$ 174,525,063</u>		<u>\$ 160,852,330</u>	
Net interest income		<u>\$ 15,190,940</u>		<u>\$ 13,819,298</u>
	2021		2020	
	Average Yield		Average Yield	
Yield on loans	4.15%		4.76%	
Yield on investments	4.01%		4.67%	
Total yield on interest-earning assets	4.15%		4.76%	
Cost of interest-bearing liabilities	1.90%		2.69%	
Interest rate spread	2.25%		2.07%	
Net interest income as a percentage of average earning assets	2.52%		2.45%	

**Six months ended:  
June 30, 2021 vs. June 30, 2020**

	<b>Increase (decrease) due to</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
Interest income - loans	\$ 1,965,322	\$ (3,740,385)	\$ (1,775,063)
Interest income - investments	(29,494)	(10,801)	(40,295)
Total interest income	1,935,827	(3,751,185)	(1,815,358)
Interest expense	910,737	(4,097,737)	(3,187,000)
Net interest income	<u>\$ 1,025,091</u>	<u>\$ 346,551</u>	<u>\$ 1,371,642</u>

Interest income for the three and six months ended June 30, 2021, decreased by \$631,712 and \$1,815,358, or 4.8 percent and 6.8 percent respectively, from the same period of 2020, primarily due to declines in yields on earning assets and a decrease in average loan volume. Interest expense for the three and six months ended June 30, 2021, decreased by \$1,302,409 and \$3,187,000, or 20.9 percent and 24.5 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 second quarter of 2021 was \$1,211,593,565, compared to \$1,128,343,172 in the second quarter of 2020. The average net interest rate spread on the loan portfolio for the second quarter of 2021 was 2.25 percent, compared to 2.07 percent in the second quarter of 2020.

The association's return on average assets for the six months ended June 30, 2021, was 1.81 percent compared to 1.83 percent for the same period in 2020. The association's return on average equity for the six months ended June 30, 2021, was 12.43 percent, compared to 12.12 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>June 30, 2021</b>	<b>December 31, 2020</b>
Note payable to the bank	\$ 1,051,795,904	\$ 1,032,140,583
Accrued interest on note payable	1,650,778	1,729,707
Total	<u>\$ 1,053,446,682</u>	<u>\$ 1,033,870,290</u>

The association operates under a general financing agreement (GFA) with the bank. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of \$1,051,795,904 as of June 30, 2021, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 1.85 percent at June 30, 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 the association's 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 \$156,136,798 at June 30, 2021. The maximum amount the association may borrow from the bank as of June 30, 2021, was \$1,218,625,440 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 \$11,783,269 at June 30, 2021, compared to December 31, 2020. The association's debt as a percentage of members' equity was 5.51:1 as of June 30, 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 June 30, 2021, the association exceeded all 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 association’s 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 Association New Model 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>June 30, 2021 (unaudited)</b>	<b>December 31, 2020</b>
<b><u>ASSETS</u></b>		
Cash	\$ 9,501	\$ 7,778
Investments	2,570,480	3,533,263
Loans	1,224,893,464	1,207,848,750
Less: allowance for loan losses	1,633,787	1,486,911
Net loans	<u>1,223,259,677</u>	<u>1,206,361,839</u>
Accrued interest receivable		
Loans	9,600,797	8,856,431
Investments	17,347	44,547
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	19,711,030	19,711,030
Other	4,314,988	2,167,795
Other property owned, net	374,682	215,532
Premises and equipment, net	9,171,998	9,082,733
Other assets	1,401,976	960,965
Total assets	<u>\$ 1,270,432,476</u>	<u>\$ 1,250,941,913</u>
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 1,051,795,904	\$ 1,032,140,583
Guaranteed obligations to government entities	14,193,126	13,959,080
Advance conditional payments	98,711	149,917
Accrued interest payable	1,650,778	1,729,707
Drafts outstanding	492,128	71,456
Patronage distributions payable	-	10,426,868
Other liabilities	6,995,747	9,041,489
Total liabilities	<u>1,075,226,394</u>	<u>1,067,519,100</u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	4,914,480	4,811,195
Additional paid-in capital	10,238,891	10,238,891
Unallocated retained earnings	180,482,347	168,801,991
Accumulated other comprehensive income (loss)	(429,636)	(429,264)
Total members' equity	<u>195,206,082</u>	<u>183,422,813</u>
Total liabilities and members' equity	<u>\$ 1,270,432,476</u>	<u>\$ 1,250,941,913</u>

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

SOUTHERN AGCREDIT, ACA

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(unaudited)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 12,450,479	\$ 13,066,712	\$ 24,935,976	\$ 26,711,039
Investments	30,103	45,582	63,507	103,802
Total interest income	<u>12,480,582</u>	<u>13,112,294</u>	<u>24,999,483</u>	<u>26,814,841</u>
<b><u>INTEREST EXPENSE</u></b>				
Note payable to the Farm Credit Bank of Texas	4,924,088	6,226,516	9,808,453	12,995,452
Advance conditional payments	70	51	90	91
Total interest expense	<u>4,924,158</u>	<u>6,226,567</u>	<u>9,808,543</u>	<u>12,995,543</u>
Net interest income	<u>7,556,424</u>	<u>6,885,727</u>	<u>15,190,940</u>	<u>13,819,298</u>
<b><u>PROVISION FOR LOAN LOSSES</u></b>				
	<u>37,235</u>	<u>59,904</u>	<u>193,888</u>	<u>313,904</u>
Net interest income after provision for loan losses	<u>7,519,189</u>	<u>6,825,823</u>	<u>14,997,052</u>	<u>13,505,394</u>
<b><u>NONINTEREST INCOME</u></b>				
Income from the Farm Credit Bank of Texas:				
Patronage income	1,672,336	1,245,837	3,341,214	2,505,936
Loan fees	112,106	167,215	226,051	277,303
Financially related services income	151	145	291	279
Gain (loss) on other property owned, net	(1,723)	(5,545)	(5,928)	(19,071)
Gain (loss) on sale of premises and equipment, net	100	-	1,633	-
Other noninterest income	531	904	44,769	296,617
Total noninterest income	<u>1,783,501</u>	<u>1,408,556</u>	<u>3,608,030</u>	<u>3,061,064</u>
<b><u>NONINTEREST EXPENSES</u></b>				
Salaries and employee benefits	1,800,211	1,523,337	3,576,168	3,001,012
Occupancy and equipment	330,254	274,608	731,744	565,664
Insurance Fund premiums	363,990	169,272	724,371	335,290
Other components of net periodic postretirement benefit cost	36,876	41,364	73,752	82,728
Other noninterest expense	913,448	797,604	1,818,691	1,872,820
Total noninterest expenses	<u>3,444,779</u>	<u>2,806,185</u>	<u>6,924,726</u>	<u>5,857,514</u>
Income before income taxes	<u>5,857,911</u>	<u>5,428,194</u>	<u>11,680,356</u>	<u>10,708,944</u>
<b>NET INCOME</b>	<u>5,857,911</u>	<u>5,428,194</u>	<u>11,680,356</u>	<u>10,708,944</u>
Other comprehensive income:				
Change in postretirement benefit plans	(186)	(2,370)	(372)	(4,740)
Other comprehensive income, net of tax	<u>(186)</u>	<u>(2,370)</u>	<u>(372)</u>	<u>(4,740)</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 5,857,725</u>	<u>\$ 5,425,824</u>	<u>\$ 11,679,984</u>	<u>\$ 10,704,204</u>

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	-	-	10,708,944	(4,740)	10,704,204
Capital stock/participation certificates and allocated retained earnings issued	463,130	-	-	-	463,130
Capital stock/participation certificates and allocated retained earnings retired	(357,335)	-	-	-	(357,335)
<b>Balance at June 30, 2020</b>	<u>\$ 4,681,470</u>	<u>\$ 10,238,891</u>	<u>\$ 168,434,274</u>	<u>\$ (318,510)</u>	<u>\$ 183,036,125</u>
Balance at December 31, 2020	\$ 4,811,195	\$ 10,238,891	\$ 168,801,991	\$ (429,264)	\$ 183,422,813
Comprehensive income	-	-	11,680,356	(372)	11,679,984
Capital stock/participation certificates and allocated retained earnings issued	544,375	-	-	-	544,375
Capital stock/participation certificates and allocated retained earnings retired	(441,090)	-	-	-	(441,090)
<b>Balance at June 30, 2021</b>	<u>\$ 4,914,480</u>	<u>\$ 10,238,891</u>	<u>\$ 180,482,347</u>	<u>\$ (429,636)</u>	<u>\$ 195,206,082</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 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 adopted the guidance in the first quarter of 2021 and the impact was not material to the institution’s financial condition or results of operations.

In March 2020, the Financial Accounting Standards Board (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 were effective March 12, 2020, through December 31, 2022. In addition, the institution applied the optional expedients as it relates to loans in the first quarter of 2021. The impact of adoption was not material to the institution’s financial condition or its results of operations.

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 June 30, 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:

June 30, 2021				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
\$2,570,480	\$ 21,556	\$ -	\$2,592,036	4.17 %

December 31, 2020				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
\$ 3,533,263	\$ 43,393	\$ -	\$ 3,576,656	3.95 %

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

A summary of loans follows:

Loan Type	June 30, 2021 Amount	December 31, 2020 Amount
Production agriculture:		
Real estate mortgage	\$ 1,039,719,438	\$ 1,012,252,339
Production and intermediate term	100,543,717	103,465,293
Agribusiness:		
Loans to cooperatives	3,933,529	4,846,974
Processing and marketing	32,868,944	40,381,454
Farm-related business	6,723,327	6,805,634
Communication	22,532,796	22,680,883
Energy	12,541,080	13,002,863
Rural residential real estate	2,683,724	2,676,653
International	1,971,950	-
Water and waste water	1,374,959	1,736,657
Total	<u>\$ 1,224,893,464</u>	<u>\$ 1,207,848,750</u>

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 June 30, 2021:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 7,973,624	\$ 1,602,592	\$ 88,454	\$ -	\$ 8,062,078	\$ 1,602,592
Production and intermediate term	11,530,235	34,578,701	-	-	11,530,235	34,578,701
Agribusiness	43,051,780	-	-	-	43,051,780	-
Communication	22,532,796	-	-	-	22,532,796	-
Energy	12,541,080	-	-	-	12,541,080	-
Water and waste water	1,374,959	-	-	-	1,374,959	-
International	1,971,950	-	-	-	1,971,950	-
Total	<u>\$ 100,976,424</u>	<u>\$ 36,181,293</u>	<u>\$ 88,454</u>	<u>\$ -</u>	<u>\$ 101,064,878</u>	<u>\$ 36,181,293</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 \$98,711 and \$149,917 at June 30, 2021, and December 31, 2020, respectively.

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

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 4,027,348	\$ 4,000,295
Production and intermediate term	91,465	47,206
Total nonaccrual loans	<u>4,118,813</u>	<u>4,047,501</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	878,711	311,271
Production and intermediate term	74,187	75,558
Total accruing restructured loans	<u>952,898</u>	<u>386,829</u>
Total nonperforming loans	<u>5,071,711</u>	<u>4,434,330</u>
Other property owned	374,682	215,532
Total nonperforming assets	<u>\$ 5,446,393</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>June 30, 2021</b>		December 31, 2020	
Real estate mortgage				
Acceptable	<b>97.63</b>	%	97.80	%
OAEM	<b>1.73</b>		1.55	
Substandard/doubtful	<b>0.64</b>		0.65	
	<b>100.00</b>		100.00	
Production and intermediate term				
Acceptable	<b>98.28</b>		97.99	
OAEM	<b>1.63</b>		1.96	
Substandard/doubtful	<b>0.09</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>92.43</b>		93.64	
OAEM	<b>3.51</b>		6.36	
Substandard/doubtful	<b>4.06</b>		-	
	<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	
Rural residential real estate				
Acceptable	<b>100.00</b>		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	<b>100.00</b>		100.00	
International				
Acceptable	<b>100.00</b>		-	
OAEM	-		-	
Substandard/doubtful	-		-	
	<b>100.00</b>		-	
Water and waste water				
Acceptable	<b>100.00</b>		100.00	
OAEM	-		-	
Substandard/doubtful	-		-	
	<b>100.00</b>		100.00	
Total loans				
Acceptable	<b>97.64</b>		97.77	
OAEM	<b>1.70</b>		1.68	
Substandard/doubtful	<b>0.66</b>		0.55	
	<b>100.00</b>	%	<b>100.00</b>	%

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

June 30, 2021	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	\$ 4,213,319	\$ 1,442,074	\$ 5,655,393	\$ 1,042,669,308	\$ 1,048,324,701
Production and intermediate term	46,009	-	46,009	101,401,722	101,447,731
Loans to cooperatives	-	-	-	3,935,611	3,935,611
Processing and marketing	-	-	-	32,931,992	32,931,992
Farm-related business	-	-	-	6,732,078	6,732,078
Communication	-	-	-	22,534,023	22,534,023
Energy	-	-	-	12,546,095	12,546,095
Rural residential real estate	-	-	-	2,693,353	2,693,353
International	-	-	-	1,973,485	1,973,485
Water and waste water	-	-	-	1,375,192	1,375,192
<b>Total</b>	<b>\$ 4,259,328</b>	<b>\$ 1,442,074</b>	<b>\$ 5,701,402</b>	<b>\$ 1,228,792,859</b>	<b>\$ 1,234,494,261</b>

December 31, 2020	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
Rural residential real estate	-	-	-	2,685,463	2,685,463
International	-	-	-	-	-
Water and waste water	-	-	-	1,736,760	1,736,760
<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 June 30, 2021, the total recorded investment of troubled debt restructured loans was \$952,898, 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 June 30, 2021 and December 31, 2020.

There were no troubled debt restructurings occurring during the three months ended June 30, 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:

	<u>Loans Modified as TDRs</u>		<u>TDRs in Nonaccrual Status*</u>	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
Real estate mortgage	\$ 878,711	\$ 894,880	\$ -	\$ 583,609
Production and intermediate term	74,187	75,558	-	-
Total	<u>\$ 952,898</u>	<u>\$ 970,438</u>	<u>\$ -</u>	<u>\$ 583,609</u>

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



Additional impaired loan information is as follows:

	June 30, 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	\$ 1,857,099	\$ 1,857,099	\$ 235,277	\$ 1,751,619	\$ 1,751,619	\$ 170,242
Production and intermediate term	-	-	-	-	-	-
Total	<u>\$ 1,857,099</u>	<u>\$ 1,857,099</u>	<u>\$ 235,277</u>	<u>\$ 1,751,619</u>	<u>\$ 1,751,619</u>	<u>\$ 170,242</u>
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 3,164,372	\$ 3,175,879	\$ -	\$ 2,558,605	\$ 2,561,279	\$ -
Production and intermediate term	165,170	165,771	-	122,257	122,852	-
Total	<u>\$ 3,329,542</u>	<u>\$ 3,341,650</u>	<u>\$ -</u>	<u>\$ 2,680,862</u>	<u>\$ 2,684,131</u>	<u>\$ -</u>
Total impaired loans:						
Real estate mortgage	\$ 5,021,471	\$ 5,032,978	\$ 235,277	\$ 4,310,224	\$ 4,312,898	\$ 170,242
Production and intermediate term	165,170	165,771	-	122,257	122,852	-
Total	<u>\$ 5,186,641</u>	<u>\$ 5,198,749</u>	<u>\$ 235,277</u>	<u>\$ 4,432,481</u>	<u>\$ 4,435,750</u>	<u>\$ 170,242</u>

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

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2021		June 30, 2020		June 30, 2021		June 30, 2020	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	\$ 852,798	\$ -	\$ 858,421	\$ -	\$ 811,595	\$ -	\$ 858,277	\$ -
Production and intermediate term	-	-	-	-	-	-	-	-
Total	<u>\$ 852,798</u>	<u>\$ -</u>	<u>\$ 858,421</u>	<u>\$ -</u>	<u>\$ 811,595</u>	<u>\$ -</u>	<u>\$ 858,277</u>	<u>\$ -</u>
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	\$ 2,865,327	\$ 27,906	\$ 3,218,231	\$ 5,182	\$ 2,867,065	\$ 129,297	\$ 3,162,657	\$ 17,879
Production and intermediate term	122,806	1,468	80,428	1,515	120,387	6,877	80,745	14,567
Total	<u>\$ 2,988,133</u>	<u>\$ 29,374</u>	<u>\$ 3,298,659</u>	<u>\$ 6,697</u>	<u>\$ 2,987,452</u>	<u>\$ 136,174</u>	<u>\$ 3,243,402</u>	<u>\$ 32,446</u>
Total impaired loans:								
Real estate mortgage	\$ 3,718,125	\$ 27,906	\$ 4,076,652	\$ 5,182	\$ 3,678,660	\$ 129,297	\$ 4,020,934	\$ 17,879
Production and intermediate term	122,806	1,468	80,428	1,515	120,387	6,877	80,745	14,567
Total	<u>\$ 3,840,931</u>	<u>\$ 29,374</u>	<u>\$ 4,157,080</u>	<u>\$ 6,697</u>	<u>\$ 3,799,047</u>	<u>\$ 136,174</u>	<u>\$ 4,101,679</u>	<u>\$ 32,446</u>

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	Rural Residential Real Estate	International	Energy and Water/Waste Water	Total
<b>Allowance for Credit Losses:</b>								
Balance at March 31, 2021	\$ 1,361,469	\$ 140,094	\$ 108,165	\$ 15,518	\$ 4,092	\$ -	\$ 13,138	\$ 1,642,476
Charge-offs	(47,617)	-	-	-	-	-	-	(47,617)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	22,338	(8,376)	25,576	(185)	63	2,011	(4,192)	37,235
Other	-	5,153	627	-	-	(579)	(3,508)	1,693
Balance at June 30, 2021	<u>\$ 1,336,190</u>	<u>\$ 136,871</u>	<u>\$ 134,368</u>	<u>\$ 15,333</u>	<u>\$ 4,155</u>	<u>\$ 1,432</u>	<u>\$ 5,438</u>	<u>\$ 1,633,787</u>
Balance at December 31, 2020	\$ 1,141,229	\$ 138,280	\$ 173,548	\$ 15,296	\$ 3,016	\$ -	\$ 15,542	\$ 1,486,911
Charge-offs	(47,617)	-	-	-	-	-	-	(47,617)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	242,578	(6,879)	(39,431)	2	1,140	2,010	(5,532)	193,888
Other	-	5,469	252	35	-	(579)	(4,572)	605
Balance at June 30, 2021	<u>\$ 1,336,190</u>	<u>\$ 136,870</u>	<u>\$ 134,369</u>	<u>\$ 15,333</u>	<u>\$ 4,156</u>	<u>\$ 1,431</u>	<u>\$ 5,438</u>	<u>\$ 1,633,787</u>
Ending Balance:								
Individually evaluated for impairment	\$ 235,277	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 235,277
Collectively evaluated for impairment	<u>1,100,913</u>	<u>136,870</u>	<u>134,369</u>	<u>15,333</u>	<u>4,156</u>	<u>1,431</u>	<u>5,438</u>	<u>1,398,510</u>
Balance at June 30, 2021	<u>\$ 1,336,190</u>	<u>\$ 136,870</u>	<u>\$ 134,369</u>	<u>\$ 15,333</u>	<u>\$ 4,156</u>	<u>\$ 1,431</u>	<u>\$ 5,438</u>	<u>\$ 1,633,787</u>
Balance at March 31, 2020	\$ 1,142,568	\$ 171,193	\$ 119,851	\$ 13,459	\$ 3,064	\$ -	\$ 9,079	\$ 1,459,214
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	39,925	(2,084)	17,293	1,872	(102)	-	3,000	59,904
Other	(786)	(2,159)	4,848	-	-	-	779	2,682
Balance at June 30, 2020	<u>\$ 1,181,707</u>	<u>\$ 166,950</u>	<u>\$ 141,992</u>	<u>\$ 15,331</u>	<u>\$ 2,962</u>	<u>\$ -</u>	<u>\$ 12,858</u>	<u>\$ 1,521,800</u>
Balance at December 31, 2019	\$ 917,520	\$ 138,406	\$ 120,734	\$ 13,909	\$ 2,471	\$ -	\$ 11,650	\$ 1,204,690
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	264,973	35,128	13,210	1,412	491	-	(1,310)	313,904
Other	(786)	(6,584)	8,048	10	-	-	2,518	3,206
Balance at June 30, 2020	<u>\$ 1,181,707</u>	<u>\$ 166,950</u>	<u>\$ 141,992</u>	<u>\$ 15,331</u>	<u>\$ 2,962</u>	<u>\$ -</u>	<u>\$ 12,858</u>	<u>\$ 1,521,800</u>
Ending Balance:								
Individually evaluated for impairment	\$ 28,912	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,912
Collectively evaluated for impairment	<u>1,152,795</u>	<u>166,950</u>	<u>141,992</u>	<u>15,331</u>	<u>2,962</u>	<u>-</u>	<u>12,858</u>	<u>1,492,888</u>
Balance at June 30, 2020	<u>\$ 1,181,707</u>	<u>\$ 166,950</u>	<u>\$ 141,992</u>	<u>\$ 15,331</u>	<u>\$ 2,962</u>	<u>\$ -</u>	<u>\$ 12,858</u>	<u>\$ 1,521,800</u>
<b>Recorded Investments in Loans Outstanding:</b>								
Ending Balance at								
June 30, 2021	\$ 1,048,324,700	\$ 101,447,731	\$ 43,599,681	\$ 22,534,023	\$ 2,693,353	\$ 1,973,485	\$ 13,921,288	\$ 1,234,494,261
Individually evaluated for impairment	\$ 4,906,058	\$ 165,652	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,071,710
Collectively evaluated for impairment	<u>\$ 1,043,418,642</u>	<u>\$ 101,282,079</u>	<u>\$ 43,599,681</u>	<u>\$ 22,534,023</u>	<u>\$ 2,693,353</u>	<u>\$ 1,973,485</u>	<u>\$ 13,921,288</u>	<u>\$ 1,229,422,551</u>
Ending Balance at								
December 31, 2020	\$ 1,020,424,914	\$ 104,044,978	\$ 52,122,136	\$ 22,682,157	\$ 1,736,760	\$ 2,685,463	\$ 13,008,773	\$ 1,216,705,181
Individually evaluated for impairment	\$ 4,311,567	\$ 122,764	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,434,331
Collectively evaluated for impairment	<u>\$ 1,016,113,347</u>	<u>\$ 103,922,214</u>	<u>\$ 52,122,136</u>	<u>\$ 22,682,157</u>	<u>\$ 1,736,760</u>	<u>\$ 2,685,463</u>	<u>\$ 13,008,773</u>	<u>\$ 1,212,270,850</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 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 June 30, 2021	
Common equity tier 1 ratio	7.00%		14.26%	
Tier 1 capital ratio	8.50%		14.26%	
Total capital ratio	10.50%		14.39%	
Permanent capital ratio	7.00%		14.27%	
<hr/>				
Non-risk-adjusted:				
Tier 1 leverage ratio	5.00%		13.81%	
UREE leverage ratio	1.50%		10.19%	
<hr/>				
	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
<hr/>				
Numerator:				
Unallocated retained earnings	83,309,333	83,309,333	83,309,333	83,309,333
Paid-in capital	10,238,891	10,238,891	10,238,891	10,238,891
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,883,609	4,883,609	4,883,609	4,883,609
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	34,839,636	34,839,636	34,839,636	34,839,636
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			1,667,064	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(19,711,030)	(19,711,030)	(19,711,030)	(19,711,030)
Other regulatory required deductions	-	-	-	-
	171,107,154	171,107,154	172,774,218	171,107,154
<hr/>				
Denominator:				
Risk-adjusted assets excluding allowance	1,220,030,969	1,220,030,969	1,220,030,969	1,220,030,969
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(19,711,030)	(19,711,030)	(19,711,030)	(19,711,030)
Allowance for loan losses				(1,601,217)
	1,200,319,939	1,200,319,939	1,200,319,939	1,198,718,722
<hr/>				

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	83,309,333	83,309,333
Paid-in capital	10,238,891	10,238,891
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,883,609	-
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	34,839,636	34,839,636
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	(19,711,030)	(2,148,365)
Other regulatory required deductions	-	-
	<u>171,107,154</u>	<u>126,239,495</u>
Denominator:		
Total Assets	1,261,860,245	1,261,860,245
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(23,168,431)	(23,168,431)
	<u>1,238,691,814</u>	<u>1,238,691,814</u>

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 June 30:

	<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	(372)	(4,740)
Other comprehensive income (loss), net of tax	(372)	(4,740)
Accumulated other comprehensive income (loss) at June 30	<u>\$(429,636)</u>	<u>\$ (318,510)</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 June 30, 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>June 30, 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	\$276,089	\$ -	\$ -	\$ 276,089

<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>June 30, 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	\$ -	\$ -	\$1,621,822	\$1,621,822
Other property owned	-	-	159,150	159,150

<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.

#### *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.

#### *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 and six months ended June 30:

Three months ended June 30:

	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>\$ 36,875</u>	<u>\$ 38,993</u>

Six months ended June 30:

	Other Benefits	
	2021	2020
Service cost	\$ 22,094	\$ 21,039
Interest cost	52,032	61,690
Expected return on plan assets	-	-
Amortization of prior service (credits) costs	(6,750)	(6,749)
Amortization of net actuarial (gain) loss	6,374	2,008
Net periodic benefit cost	<u>\$ 73,750</u>	<u>\$ 77,988</u>

The association's liability for the unfunded accumulated obligation for these benefits at June 30, 2021, was \$3,796,990 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 June 30, 2021, \$242,034 of contributions have been made. The association presently anticipates contributing an additional \$242,034 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 June 30, 2021, \$85,091,133 of commitments and \$278,221 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 August 9, 2021 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 9, 2021.