
# AGFIRST FARM CREDIT BANK & DISTRICT ASSOCIATIONS

## 2021 THIRD QUARTER FINANCIAL INFORMATION

# *AgFirst Farm Credit Bank and District Associations September 30, 2021 Financial Information*

***(unaudited)***

## INTRODUCTION AND DISTRICT OVERVIEW

The following commentary reviews the Combined Financial Statements of condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the AgFirst District (District), for the three and nine months ended September 30, 2021. AgFirst and the District Associations are part of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses. AgFirst and each District Association are individually regulated by the Farm Credit Administration (FCA).

The Associations are structured as cooperatives, and each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst. As such, the benefits of ownership flow to the same farmer/rancher-borrowers that the System was created to serve.

As of September 30, 2021, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate and service both long-term real estate mortgage loans and short- and intermediate-term loans.

Farm Credit's funds are raised by the Federal Farm Credit Banks Funding Corporation (the Funding Corporation) and insured by the Farm Credit System Insurance Corporation (FCSIC). The Funding Corporation issues a variety of Federal Farm Credit Banks Consolidated Systemwide Debt Securities with broad ranges of maturities and structures on behalf of the System banks. Each System bank has exposure to Systemwide credit risk because each bank is jointly and severally liable for all Systemwide debt issued.

AgFirst provides funding and related services to the District Associations, which, in turn, provide loans and related services to agricultural and rural borrowers. AgFirst has in place with each of the District Associations, a revolving line of credit, referred to as a "Direct Note", which is eliminated in this combined District report. Each Association primarily funds its lending and general corporate activities by borrowing through its Direct Note. Virtually all assets of the Associations secure the Direct Notes. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations.

AgFirst and the Associations are chartered to serve eligible borrowers in Alabama, Delaware, Florida, Georgia, Maryland, Mississippi, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia, Puerto Rico, and portions of Kentucky, Louisiana, Ohio, and Tennessee. As of September 30, 2021, two other Farm Credit Banks (FCBs) and an Agricultural Credit Bank (ACB), through a number of associations, provided loans and related services to eligible borrowers in the remaining portion of the United States. While owned by its related associations, each FCB manages and controls its own business activities and operations. The ACB is owned by its related associations as well as other agricultural and rural institutions, including agricultural cooperatives. Associations are not commonly owned or controlled and each manages and controls its own business activities and operations.

While combined District statements reflect the financial and operational interdependence of AgFirst and its Associations, AgFirst does not own or control the Associations. AgFirst publishes Bank-only audited financial statements (electronic version of which is available on AgFirst's website at **www.agfirst.com**) that may be referred to for a more complete analysis of AgFirst's financial condition and results of operations.

# *Financial Highlights*

| *(dollars in thousands)* | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Total loans | **$ 33,815,128** | $ 32,170,077 |
| Allowance for loan losses | **(222,800)** | (220,261) |
| Net loans | **33,592,328** | 31,949,816 |
| Total assets | **44,291,321** | 42,447,462 |
| Total shareholders' equity | **7,542,461** | 7,107,520 |

| | **For the Nine Months Ended September 30,** | |
|---|---|---|
| | **2021** | **2020** |
| Net interest income | **$ 1,004,168** | $ 907,776 |
| Provision for (reversal of allowance for) loan losses | **4,094** | 16,557 |
| Noninterest income (expense), net | **(384,619)** | (386,479) |
| Net income | **$ 615,455** | $ 504,740 |
| Net interest income as a percentage of average earning assets | **3.18 %** | 2.99 % |
| Net (charge-offs) recoveries to average loans | **(0.01)%** | (0.01)% |
| Return on average assets | **1.91 %** | 1.62 % |
| Return on average shareholders' equity | **11.11 %** | 9.57 % |
| Operating expense as a percentage of net interest income and noninterest income | **41.97 %** | 43.76 % |
| Average loans | **$ 32,815,225** | $ 31,372,542 |
| Average earning assets | **42,186,084** | 40,601,540 |
| Average assets | **43,093,535** | 41,544,823 |

# Management's Discussion & Analysis of Financial Condition & Results of Operations

## COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, AgFirst and the Associations transitioned the vast majority of their employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. The Bank continues to operate primarily in a remote work environment, with a limited number of employees working at the Bank's headquarters. Associations' remote work environments and pandemic mitigation strategies have varied over the last several months to address their unique local conditions. Several Associations have returned to pre-pandemic working conditions while others have some contingent of staff working remotely and continue to allow customer branch visits by appointment only.

The COVID-19 pandemic has disrupted businesses and the global economy since March 2020. Significant progress has been made during 2021 in mitigating the spread of COVID-19 resulting in improving macroeconomic conditions. However, the improvement has been hampered by rising inflation, supply chain disruptions and labor shortages in the United States and globally.

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

### *COVID-19 Support Programs*

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

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

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

The previously enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was amended by subsequent legislation, included the Paycheck Protection Program (PPP). The PPP provided support to small businesses to cover payroll and certain other expenses. Loans made under the PPP were fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States. Over the life of the program, the District extended loans to approximately 9,900 borrowers. As of September 30, 2021, the District had $67.8 million of these loans outstanding. In addition, through September 30, 2021, the volume of such loans that have received forgiveness from the SBA since the start of the program was $216.7 million.

For a detailed discussion of programs enacted in 2020, see pages 3 and 4 of the 2020 District Annual Financial Information.

## CLIMATE CHANGE

Agricultural production is and always has been vulnerable to weather events and climate change. The USDA has recognized that the changing climate presents threats to U.S. and global agricultural production and rural communities. The impact of climate change including its effect on weather is, and will continue to be, a challenge for agricultural producers. Among the risks of climate change are:

- rising average temperatures,
- more frequent and severe storms,
- more forest fires, and
- extremes in flooding and droughts.

However, risks associated with climate change are mitigated, to some degree, by U.S. agricultural producers' ability to navigate changing industry dynamics from numerous perspectives, including trade, government policy, consumer preferences and weather. Producers regularly adopt new technologies, agronomic practices and financial strategies in response to evolving trends to ensure their competitiveness.

## RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2021 was $615.5 million compared to $504.7 million for the corresponding period in 2020, an increase of $110.7 million or 21.94 percent. Net income for the three months ended September 30, 2021 was $200.4 million compared to $200.3 million for the three months ended September 30, 2020, an increase of $142 thousand, or 0.07 percent. See below for further discussion of the change in net income by major components.

### *Net Interest Income*

Net interest income increased $14.8 million, or 4.53 percent, to $341.9 million, for the three months ended September 30, 2021 compared to the three months ended September 30, 2020. For the nine months ended September 30, 2021, net interest income was $1.004 billion compared to $907.8 million for the same period of 2020, an increase of $96.4 million, or 10.62 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 3.16 percent and 3.18 percent, for the three and nine months ended September 30, 2021. Compared to the same periods in the prior year, there was no change in the net interest margin for the three-month period and an increase of 19 basis points for the nine-month period. The increases in net interest income primarily resulted from lower rates paid on interest-bearing liabilities, which was achieved by calling debt in response to declining interest rates, and higher loan volume, partially offset by refinancing of interest-earning assets at lower interest rates.

The COVID-19 impact on interest rates provided the Bank opportunities to call and replace $7.251 billion of debt for the first nine months of 2021, and $38.081 billion for the first nine months of 2020. The average rate reduction for the debt called during 2021 (the difference between the rates on the called bonds and the rates on the replacement bonds) was 22 basis points, resulting in interest expense savings of $64.3 million, net of debt extinguishment expense of $9.2 million, over the remaining life of the bonds of 3.77 years. Replacement bonds generally have terms similar to those of the bonds being replaced. For the year ended December 31, 2020, $43.043 billion of debt was called and replaced. The average rate reduction was 63 basis points resulting in interest expense savings of $954.8 million, net of debt extinguishment expense of $65.5 million, over the remaining life of the bonds called.

The effects of changes in volume and interest rates on net interest income for the three and nine months ended September 30, 2021, as compared with the corresponding periods in 2020, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

| | For the Three Months Ended September 30, 2021 vs. September 30, 2020 | | | For the Nine Months Ended September 30, 2021 vs. September 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Increase (decrease) due to changes in: | | | Increase (decrease) due to changes in: | | |
| *(dollars in thousands)* | Volume | Rate | Total | Volume | Rate | Total |
| Interest Income: | | | | | | |
| Loans | $ 17,648 | $ (11,746) | $ 5,902 | $ 45,785 | $ (95,034) | $ (49,249) |
| Investments & Cash Equivalents | 748 | (3,855) | (3,107) | 2,960 | (31,756) | (28,796) |
| Other | (44) | (543) | (587) | (126) | (1,725) | (1,851) |
| Total Interest Income | 18,352 | (16,144) | 2,208 | 48,619 | (128,515) | (79,896) |
| Interest Expense: | | | | | | |
| Interest-Bearing Liabilities | 1,888 | (14,499) | (12,611) | 4,646 | (180,934) | (176,288) |
| Changes in Net Interest Income | $ 16,464 | $ (1,645) | $ 14,819 | $ 43,973 | $ 52,419 | $ 96,392 |

***Provision for Loan Losses***

AgFirst and the District Associations measure risks inherent in their individual loan portfolios on an ongoing basis and, as necessary, recognize provision for loan loss expense so that appropriate allowances for loan losses are maintained. Provision for loan losses was a net provision expense of $5.0 million and $4.1 million for the three and nine months ended September 30, 2021, respectively, compared to a net provision expense of $1.3 million and $16.6 million for the corresponding periods in 2020.

For the three and nine months ended September 30, 2021, the provision for loan losses included net provision expense for specific reserves of $1.2 million and $2.0 million, respectively, and net provision expense for general reserves of $3.8 million and $2.1 million, respectively. Total net provision expense for the three months ended September 30, 2021 primarily related to borrowers in the tree fruits and nuts ($3.0 million expense), field crops ($1.3 million expense), fruits/vegetables other ($1.2 million expense), grains ($1.3 million reversal), and dairy ($1.1 million reversal) segments. Total net provision expense for the nine months ended September 30, 2021 primarily related to borrowers in the field crops ($4.0 million expense), tree fruits and nuts ($2.5 million expense), utilities ($1.8 million expense), forestry ($1.4 million expense), fruits/vegetables other ($1.2 million expense), and swine ($2.1 million reversal) segments.

For the three and nine months ended September 30, 2020, the provision for loan losses included net provision expense for specific reserves of $1.2 million and $4.0 million, respectively, and net provision expense for general reserves of $53 thousand and $12.6 million, respectively. Total net provision expense for the three months ended September 30, 2020 primarily related to borrowers in the poultry ($4.0 million expense), swine ($2.1 million expense), rural home loan ($1.6 million expense), nursery/greenhouse ($1.8 million reversal), corn ($1.5 million reversal), utilities ($1.1 million reversal), and dairy ($924 thousand reversal) segments. For the nine months ended September 30, 2020, the provision for loan losses primarily related to borrowers in the poultry ($9.0 million expense), forestry ($3.2 million expense), swine ($2.3 million expense), field crops ($2.2 million expense), rural home loan ($2.0 million expense), processing ($1.9 million expense), grains ($1.4 million expense), other real estate ($3.4 million reversal), nursery/greenhouse ($2.9 million reversal), and dairy ($2.2 million reversal) segments.

See the *Loan Portfolio* section below for further information.

***Noninterest Income***

The following table illustrates the changes in noninterest income:

| **Change in Noninterest Income** | **For the Three Months Ended September 30,** | | | **For the Nine Months Ended September 30,** | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **2021** | **2020** | **Increase/ Decrease** | **2021** | **2020** | **Increase/ Decrease** |
| Loan fees | $ 10,010 | $ 9,411 | $ 599 | $ 41,788 | $ 31,212 | $ 10,576 |
| Fees for financially related services | 4,381 | 3,653 | 728 | 11,232 | 7,996 | 3,236 |
| Lease income | 1,010 | 966 | 44 | 2,899 | 2,832 | 67 |
| Gains (losses) on investments, net | — | — | — | 330 | 7,215 | (6,885) |
| Gains (losses) on debt extinguishment | (4,370) | (14,353) | 9,983 | (9,204) | (58,300) | 49,096 |
| Gains (losses) on other transactions | 2,289 | 12,629 | (10,340) | 9,639 | 17,963 | (8,324) |
| Insurance premium refund | — | — | — | — | 6,813 | (6,813) |
| Other noninterest income | 1,884 | 1,669 | 215 | 8,787 | 7,650 | 1,137 |
| Total noninterest income | $ 15,204 | $ 13,975 | $ 1,229 | $ 65,471 | $ 23,381 | $ 42,090 |

Noninterest income increased $1.2 million and $42.1 million for the three and nine months ended September 30, 2021, respectively, compared to the corresponding periods in 2020. Significant line item dollar variances are discussed below.

Loan fees increased $10.6 million for the nine months ended September 30, 2021 compared to the corresponding period in 2020. The increase for the nine months ended September 30, 2021 was primarily due to $5.1 million in higher fee income on loans made under the SBA Paycheck Protection Program (PPP) and $4.7 million in higher new loan/origination fees. See the *COVID-19 Support Programs* section above for further discussion.

Fees for financially related services increased $3.2 million for the nine months ended September 30, 2021 compared to the corresponding period in 2020. The increase resulted primarily from an increase in crop and hail insurance of $2.5 million for the nine-month period.

Gains on investments decreased $6.9 million for the nine-month period ended September 30, 2021 compared to the same period in 2020. As part of its normal portfolio management activities, the Bank periodically packages and sells amortizing securities that have relatively small remaining balances and correspondingly high administrative costs. During the first nine months of 2021, the Bank sold such securities with a par value of approximately $43.9 million and recognized net gains of $330 thousand compared to sales of securities with a par value of approximately $55.9 million and net gains of $7.2 million recorded during the first nine months of 2020.

Debt issuance expense is amortized into interest expense over the contractual life of the underlying debt security. Debt is called to take advantage of favorable market interest rate changes. When debt securities are called prior to maturity, any unamortized issuance cost is expensed through gains (losses) on debt extinguishment. The amount of issuance cost expensed when a bond is called is dependent upon both the size and remaining maturity of the bond when called. Losses on called debt are more than offset by interest expense savings realized over the life of the replacement debt. Call options were exercised on bonds totaling $1.890 billion and $7.251 billion for the three and nine months ended September 30, 2021, respectively, compared to $8.719 billion and $38.081 billion for the three and nine months ended September 30, 2020, respectively. Accordingly, losses on debt extinguishment decreased $10.0 million and $49.1 million for the three and nine months ended September 30, 2021, respectively, compared to the same periods in 2020. See *Net Interest Income* section above for further discussion.

For the three and nine months ended September 30, 2021, gains on other transactions decreased $10.3 million and $8.3 million, respectively, compared to the same periods in the prior year. The decreases in both the three- and nine-month periods resulted primarily from lower gains on sale of loans of $7.1 million and $11.7 million, respectively, resulting from sales of loans in the rural residential loan portfolio of $180.2 million and $287.8 million for the three and nine months ended September 30, 2020, respectively, to capitalize on market premiums in the portfolio and manage long-term risk during a period of market volatility. In addition, gains recognized on the fair value of mortgage servicing rights decreased by $1.4 million and $1.8 million, respectively, for the three- and nine-month periods, as servicing retained from these loan sales increased gains in the 2020 periods. For the three and nine months ended September 30, 2021, there was a decrease of

$2.4 million and an increase of $2.9 million when compared to the corresponding periods in the prior year for market value changes of supplemental retirement plan trust assets.

In the first quarter of 2020, the District received an insurance premium refund of $6.8 million from the FCSIC which insures the System's debt obligations. This refund is nonrecurring and resulted from the assets of the FCSIC exceeding the secure base amount, as defined by the Farm Credit Act, at the end of the preceding year. No refund was received in 2021.

***Noninterest Expenses***

The following table illustrates the changes in noninterest expenses:

| **Change in Noninterest Expenses** | **For the Three Months Ended September 30,** | | | **For the Nine Months Ended September 30,** | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **2021** | **2020** | **Increase/ Decrease** | **2021** | **2020** | **Increase/ Decrease** |
| Salaries and employee benefits | $ 85,884 | $ 81,908 | $ 3,976 | $ 260,803 | $ 245,223 | $ 15,580 |
| Occupancy and equipment | 7,050 | 7,028 | 22 | 20,661 | 20,390 | 271 |
| Insurance Fund premiums | 11,965 | 7,914 | 4,051 | 34,901 | 19,118 | 15,783 |
| Other operating expenses | 46,242 | 42,301 | 3,941 | 132,593 | 122,766 | 9,827 |
| Losses (gains) from other property owned | (91) | 230 | (321) | — | 1,663 | (1,663) |
| Total noninterest expenses | $ 151,050 | $ 139,381 | $ 11,669 | $ 448,958 | $ 409,160 | $ 39,798 |

Noninterest expenses increased $11.7 million and $39.8 million for the three and nine months ended September 30, 2021, respectively, compared to the corresponding periods in 2020. Significant line item dollar variances are discussed below.

Salaries and employee benefits expenses increased $4.0 million and $15.6 million for the three and nine months ended September 30, 2021. The increases resulted primarily from higher salaries and incentives due to normal salary administration, increased performance-based incentives, and an increase in headcount.

Insurance Fund premiums increased $4.1 million and $15.8 million for the three and nine months ended September 30, 2021 compared to the same periods in 2020. The increases resulted primarily from an increase in the base annual premium rate to 16 basis points in 2021 from 8 basis points in the first half of 2020 and 11 basis points in the second half of 2020. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount which is based upon insured debt outstanding at System banks. The Insurance Fund premium rate will remain at 16 basis points for the remainder of 2021.

For the three and nine months ended September 30, 2021, other operating expenses increased by $3.9 million and $9.8 million compared to the same periods in 2020. The increase for both periods was primarily related to technology initiatives which resulted in increases of $2.7 million and $10.9 million in consultant and contractor costs for three and nine months, respectively, and increases of $1.7 million and $4.8 million, respectively, in hardware and software maintenance and depreciation costs. These increases were partially offset by decreases in periodic pension and postretirement benefit costs of $2.1 million and $6.4 million for the three and nine months ended September 30, 2021 compared to the same periods in 2020 due primarily to lower interest expense resulting from a decrease in the discount rate.

Losses on other property owned decreased by $1.7 million for the nine months ended September 30, 2021 compared to the same period in the prior year due primarily to lower write-downs in the 2021 period.

## LOAN PORTFOLIO

The District's aggregate loan portfolio consists primarily of loans made by the Associations to eligible borrowers located within their chartered territories. Diversification of the loan volume by FCA loan type is shown in the following table:

**Loan Types**

| *(dollars in thousands)* | September 30, 2021 | | December 31, 2020 | | September 30, 2020 | |
|---|---|---|---|---|---|---|
| Real Estate Mortgage | $ 18,088,447 | 53.49 % | $ 16,849,843 | 52.38 % | $ 16,275,611 | 51.39 % |
| Production and Intermediate-Term | 6,636,550 | 19.63 | 6,758,318 | 21.01 | 6,939,894 | 21.91 |
| Rural Residential Real Estate | 3,395,867 | 10.04 | 3,480,143 | 10.82 | 3,533,342 | 11.15 |
| Processing and Marketing | 2,510,595 | 7.42 | 2,209,669 | 6.87 | 2,120,920 | 6.70 |
| Power and Water/Waste Disposal | 816,268 | 2.41 | 606,739 | 1.89 | 628,767 | 1.98 |
| Communication | 732,015 | 2.17 | 734,958 | 2.28 | 688,408 | 2.17 |
| Loans to Cooperatives | 711,715 | 2.11 | 750,943 | 2.33 | 752,776 | 2.38 |
| Farm-Related Business | 440,197 | 1.30 | 380,011 | 1.18 | 353,517 | 1.12 |
| International | 183,665 | 0.54 | 168,952 | 0.52 | 157,607 | 0.50 |
| Loans to Other Financing Institutions (OFIs) | 155,549 | 0.46 | 137,098 | 0.43 | 138,878 | 0.44 |
| Other (including Mission Related) | 130,746 | 0.39 | 83,094 | 0.26 | 71,023 | 0.22 |
| Lease Receivables | 13,514 | 0.04 | 10,309 | 0.03 | 11,444 | 0.04 |
| Total | $ 33,815,128 | 100.00 % | $ 32,170,077 | 100.00 % | $ 31,672,187 | 100.00 % |

Total loans outstanding were $33.815 billion at September 30, 2021, an increase of $1.645 billion, or 5.11 percent, compared to total loans outstanding at December 31, 2020 and an increase of $2.143 billion, or 6.77%, since September 30, 2020.

Compared to year-end 2020, the increase in loan growth was primarily due to growth in the field crops, forestry, grains, dairy, and cattle segments. Compared to September 30, 2020, the year-over-year increase in loan volume was primarily in the field crops, forestry, grains, utilities, and processing segments. Growth came from a combination of factors including new client acquisition, customers restructuring their balance sheets to take advantage of the current rate environment, liquidity needs due to commodity price escalation, and merger and acquisition activity. Both periods were partially offset by declines in the rural home loans segment.

### *Credit Quality*

Credit quality of the District's loans is show below:

| | Total Loan Portfolio Credit Quality as of: | | |
|---|---|---|---|
| **Classification** | **September 30, 2021** | **December 31, 2020** | **September 30, 2020** |
| Acceptable | 96.11 % | 95.29 % | 94.64 % |
| OAEM | 2.17 % | 2.67 % | 2.93 % |
| Substandard/doubtful/loss | 1.72 % | 2.04 % | 2.43 % |
| Total | 100.00 % | 100.00 % | 100.00 % |

District credit quality has remained relatively stable, but it may deteriorate in future quarters in response to potential changes in government support for agricultural sectors and unemployment benefits, inflationary pressures, and unforeseen impacts from trade, weather, or agriculture-related events.

As a result of stable credit quality and the District's efforts to resolve problem assets, the District's high-risk assets continue to be a small percentage of the total loan volume and total assets. Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

| *(dollars in thousands)* | **September 30, 2021** | **December 31, 2020** |
|---|---|---|
| **Nonaccrual loans:** | | |
| Real estate mortgage | $ 99,273 | $ 114,349 |
| Production and intermediate-term | 74,723 | 92,212 |
| Processing and marketing | 7,952 | 3,374 |
| Farm-related business | 3,547 | 2,008 |
| Power and water/waste disposal | 10,980 | — |
| Rural residential real estate | 19,882 | 18,897 |
| Lease receivables | 94 | 126 |
| Total | $ 216,451 | $ 230,966 |
| **Accruing restructured loans:** | | |
| Real estate mortgage | $ 77,311 | $ 80,068 |
| Production and intermediate-term | 28,877 | 33,681 |
| Processing and marketing | 8,462 | 10,228 |
| Farm-related business | 180 | 512 |
| Rural residential real estate | 14,398 | 4,165 |
| Lease receivables | 6 | 24 |
| Other (including mission related) | 3,746 | 3,830 |
| Total | $ 132,980 | $ 132,508 |
| **Accruing loans 90 days or more past due:** | | |
| Real estate mortgage | $ 332 | $ 596 |
| Production and intermediate-term | 6 | 20 |
| Rural residential real estate | 3,541 | 535 |
| Other (including mission related) | 886 | — |
| Total | $ 4,765 | $ 1,151 |
| Total nonperforming loans | $ 354,196 | $ 364,625 |
| Other property owned | 8,809 | 10,751 |
| Total nonperforming assets | $ 363,005 | $ 375,376 |
| Nonaccrual loans as a percentage of total loans | 0.64 % | 0.72 % |
| Nonperforming assets as a percentage of total loans and other property owned | 1.07 % | 1.17 % |
| Nonperforming assets as a percentage of capital | 4.81 % | 5.28 % |

The recorded investment in a 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. The following tables provide an aging analysis of the recorded investment in past due loans as of:

| | September 30, 2021 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **30 Through 89 Days Past Due** | **90 Days or More Past Due** | **Total Past Due** | **Not Past Due or Less Than 30 Days Past Due** | **Total Loans** |
| Real estate mortgage | $ 63,475 | $ 46,708 | $ 110,183 | $ 18,131,473 | $ 18,241,656 |
| Production and intermediate-term | 27,090 | 32,266 | 59,356 | 6,644,058 | 6,703,414 |
| Loans to cooperatives | 1 | — | 1 | 712,228 | 712,229 |
| Processing and marketing | 7,928 | — | 7,928 | 2,509,333 | 2,517,261 |
| Farm-related business | 4,174 | 1,960 | 6,134 | 436,632 | 442,766 |
| Communication | — | — | — | 732,184 | 732,184 |
| Power and water/waste disposal | — | 10,980 | 10,980 | 808,197 | 819,177 |
| Rural residential real estate | 7,163 | 13,268 | 20,431 | 3,384,967 | 3,405,398 |
| International | — | — | — | 183,997 | 183,997 |
| Lease receivables | — | — | — | 13,558 | 13,558 |
| Loans to OFIs | — | — | — | 155,811 | 155,811 |
| Other (including Mission Related) | 4,309 | 886 | 5,195 | 126,260 | 131,455 |
| Total | $ 114,140 | $ 106,068 | $ 220,208 | $ 33,838,698 | $ 34,058,906 |

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | **30 Through 89 Days Past Due** | **90 Days or More Past Due** | **Total Past Due** | **Not Past Due or Less Than 30 Days Past Due** | **Total Loans** |
| Real estate mortgage | $ 55,907 | $ 55,206 | $ 111,113 | $ 16,867,836 | $ 16,978,949 |
| Production and intermediate-term | 27,779 | 44,927 | 72,706 | 6,746,670 | 6,819,376 |
| Loans to cooperatives | — | — | — | 751,810 | 751,810 |
| Processing and marketing | 975 | 2,981 | 3,956 | 2,211,971 | 2,215,927 |
| Farm-related business | 2,901 | 1,070 | 3,971 | 377,986 | 381,957 |
| Communication | — | — | — | 735,084 | 735,084 |
| Power and water/waste disposal | — | — | — | 608,380 | 608,380 |
| Rural residential real estate | 52,724 | 11,580 | 64,304 | 3,425,490 | 3,489,794 |
| International | — | — | — | 169,551 | 169,551 |
| Lease receivables | 303 | — | 303 | 10,060 | 10,363 |
| Loans to OFIs | — | — | — | 137,379 | 137,379 |
| Other (including Mission Related) | 4,411 | — | 4,411 | 79,283 | 83,694 |
| Total | $ 145,000 | $ 115,764 | $ 260,764 | $ 32,121,500 | $ 32,382,264 |

***Nonaccrual Loans***

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at September 30, 2021 were $216.5 million compared to $231.0 million at December 31, 2020. Nonaccrual loans decreased $14.5 million during the nine months ended September 30, 2021 due primarily to repayments of $84.6 million, reinstatements to accrual status of $20.9 million, charge-offs of uncollectible balances of $5.0 million, and transfers to other property owned of $3.7 million. Offsetting these decreases were loan balances transferred to nonaccrual status of $81.1 million, advances on nonaccrual loans of $15.9 million and recoveries of charge-offs of $4.6 million. At September 30, 2021, total nonaccrual loans were primarily in the field crops (14.92 percent of the total), poultry (11.81 percent), rural home loan (9.25 percent), tree fruits and nuts (8.32 percent), grains (8.01 percent), and cattle (7.63 percent) segments. Nonaccrual loans were 0.64 percent of total loans outstanding at September 30, 2021 compared to 0.72 percent at December 31, 2020.

***Troubled Debt Restructurings***

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank and District Associations would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank and District Associations. TDRs totaled $199.1 million at September 30, 2021, compared to $193.9 million at December 31, 2020. At September 30, 2021, TDRs were comprised of $133.0 million of accruing restructured loans and $66.2 million of nonaccrual restructured loans. Restructured loans were primarily in the poultry (16.39 percent of the total), field crops (14.00 percent), other (9.86 percent), rural home loan (9.04 percent), forestry (8.03 percent), cattle (7.62 percent), tree fruits and nuts (7.08 percent), and dairy (6.62 percent) segments.

***Other Property Owned***

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $1.9 million during 2021 to $8.8 million at September 30, 2021. The decrease was due primarily to sales of $6.3 million, partially offset by property received in settlement of loans of $4.6 million. At September 30, 2021, the largest OPO holding was in the grains segment and totaled $2.0 million (22.84 percent of the total OPO balance).

***Allowance for Loan Losses***

Each District institution maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within its respective loan and finance lease portfolios as of each reported balance sheet date. The District increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan or lease is uncollectible. Any subsequent recoveries are added to the allowance. Management's evaluations consider factors which include, among other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions. Although aggregated in the District's combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities.

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

| *(dollars in thousands)* | Real Estate Mortgage | Production and Intermediate-term | Agribusiness* | Communication | Power and Water/Waste Disposal | Rural Residential Real Estate | International | Lease Receivables | Other Loans** | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Activity related to allowance for credit losses:** | | | | | | | | | | |
| Balance at June 30. 2021 | $ 101,571 | $ 81,867 | $ 19,978 | $ 2,325 | $ 3,351 | $ 9,125 | $ 482 | $ 80 | $ 392 | $ 219,171 |
| Charge-offs | (476) | (1,049) | (169) | — | — | (755) | — | — | — | (2,449) |
| Recoveries | 229 | 693 | 48 | — | — | 72 | — | — | — | 1,042 |
| Provision for loan losses | 1,903 | 3,864 | (652) | (136) | (330) | 355 | (19) | 22 | 29 | 5,036 |
| Balance at September 30, 2021 | $ 103,227 | $ 85,375 | $ 19,205 | $ 2,189 | $ 3,021 | $ 8,797 | $ 463 | $ 102 | $ 421 | $ 222,800 |
| | | | | | | | | | | |
| Balance at December 31. 2020 | $ 100,824 | $ 85,000 | $ 19,011 | $ 2,378 | $ 1,305 | $ 10,563 | $ 461 | $ 330 | $ 389 | $ 220,261 |
| Charge-offs | (1,158) | (2,903) | (832) | — | — | (1,337) | — | — | — | (6,230) |
| Recoveries | 1,426 | 1,933 | 1,182 | — | — | 134 | — | — | — | 4,675 |
| Provision for loan losses | 2,135 | 1,345 | (156) | (189) | 1,716 | (563) | 2 | (228) | 32 | 4,094 |
| Balance at September 30, 2021 | $ 103,227 | $ 85,375 | $ 19,205 | $ 2,189 | $ 3,021 | $ 8,797 | $ 463 | $ 102 | $ 421 | $ 222,800 |
| | | | | | | | | | | |
| Balance at June 30. 2020 | $ 93,791 | $ 95,611 | $ 17,647 | $ 2,882 | $ 4,686 | $ 8,702 | $ 456 | $ 338 | $ 414 | $ 224,527 |
| Charge-offs | (56) | (2,571) | (107) | — | — | (10) | — | — | — | (2,744) |
| Recoveries | 250 | 1,537 | 30 | — | — | 83 | — | — | — | 1,900 |
| Provision for loan losses | 3,519 | (3,356) | 1,017 | (486) | (982) | 1,592 | 4 | 1 | (12) | 1,297 |
| Balance at September 30, 2020 | $ 97,504 | $ 91,221 | $ 18,587 | $ 2,396 | $ 3,704 | $ 10,367 | $ 460 | $ 339 | $ 402 | $ 224,980 |
| | | | | | | | | | | |
| Balance at December 31, 2019 | $ 88,474 | $ 91,557 | $ 16,465 | $ 2,348 | $ 2,663 | $ 8,316 | $ 461 | $ 388 | $ 405 | $ 211,077 |
| Charge-offs | (693) | (5,026) | (212) | — | — | (46) | — | — | — | (5,977) |
| Recoveries | 700 | 2,470 | 48 | — | — | 105 | — | — | — | 3,323 |
| Provision for loan losses | 9,039 | 2,204 | 2,286 | 48 | 1,041 | 1,992 | (1) | (49) | (3) | 16,557 |
| Loan type reclassification | (16) | 16 | — | — | — | — | — | — | — | — |
| Balance at September 30, 2020 | $ 97,504 | $ 91,221 | $ 18,587 | $ 2,396 | $ 3,704 | $ 10,367 | $ 460 | $ 339 | $ 402 | $ 224,980 |
| | | | | | | | | | | |
| **Allowance on loans evaluated for impairment:** | | | | | | | | | | |
| Individually | $ 5,707 | $ 12,038 | $ 274 | $ — | $ 1,760 | $ 536 | $ — | $ — | $ 92 | $ 20,407 |
| Collectively | 97,520 | 73,337 | 18,931 | 2,189 | 1,261 | 8,261 | 463 | 102 | 329 | 202,393 |
| PCI*** | — | — | — | — | — | — | — | — | — | — |
| Balance at September 30, 2021 | $ 103,227 | $ 85,375 | $ 19,205 | $ 2,189 | $ 3,021 | $ 8,797 | $ 463 | $ 102 | $ 421 | $ 222,800 |
| | | | | | | | | | | |
| Individually | $ 6,318 | $ 12,769 | $ 128 | $ — | $ — | $ 568 | $ — | $ 57 | $ 92 | $ 19,932 |
| Collectively | 94,506 | 72,231 | 18,883 | 2,378 | 1,305 | 9,995 | 461 | 273 | 297 | 200,329 |
| PCI*** | — | — | — | — | — | — | — | — | — | — |
| Balance at December 31, 2020 | $ 100,824 | $ 85,000 | $ 19,011 | $ 2,378 | $ 1,305 | $ 10,563 | $ 461 | $ 330 | $ 389 | $ 220,261 |
| | | | | | | | | | | |
| **Recorded investment in loans evaluated for impairment:** | | | | | | | | | | |
| Individually | $ 286,379 | $ 100,820 | $ 19,975 | $ — | $ 10,980 | $ 665,999 | $ — | $ 100 | $ 4,632 | $ 1,088,885 |
| Collectively | 17,954,852 | 6,602,594 | 3,652,281 | 732,184 | 808,197 | 2,739,399 | 183,997 | 13,458 | 282,634 | 32,969,596 |
| PCI*** | 425 | — | — | — | — | — | — | — | — | 425 |
| Balance at September 30, 2021 | $ 18,241,656 | $ 6,703,414 | $ 3,672,256 | $ 732,184 | $ 819,177 | $ 3,405,398 | $ 183,997 | $ 13,558 | $ 287,266 | $ 34,058,906 |
| | | | | | | | | | | |
| Individually | $ 316,166 | $ 122,213 | $ 15,755 | $ — | $ — | $ 810,686 | $ — | $ 243 | $ 3,829 | $ 1,268,892 |
| Collectively | 16,662,215 | 6,697,163 | 3,333,939 | 735,084 | 608,380 | 2,679,108 | 169,551 | 10,120 | 217,244 | 31,112,804 |
| PCI*** | 568 | — | — | — | — | — | — | — | — | 568 |
| Balance at December 31, 2020 | $ 16,978,949 | $ 6,819,376 | $ 3,349,694 | $ 735,084 | $ 608,380 | $ 3,489,794 | $ 169,551 | $ 10,363 | $ 221,073 | $ 32,382,264 |

* *Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*
** *Includes the loan types: Mission Related Loans and Loans to OFIs.*
*** *Purchased credit impaired loans.*

The allowance for loan losses was $222.8 million at September 30, 2021, as compared with $220.3 million at December 31, 2020, an increase of $2.5 million. Provision expense of $4.1 million and recoveries of $4.7 million increased the allowance during the nine months ended September 30, 2021, and were partially offset by charge-offs of $6.2 million. Recoveries during the nine months ended September 30, 2021 were related primarily to borrowers in the processing (20.86 percent of the total), nursery/greenhouse (15.20 percent), field crops (11.57 percent), and forestry (9.36 percent) segments. See *Provision for Loan Losses* section above for additional details regarding loan loss provision expense and reversals. Charge-offs during the first nine months of 2021 were related primarily to borrowers in the field crops (25.67 percent of the total), rural home loans (21.35 percent), and poultry (17.88 percent) segments. The allowance at September 30, 2021 included specific reserves of $20.4 million (9.16 percent of the total) and $202.4 million (90.84 percent) of general reserves. The largest commodity segments included in the allowance at September 30, 2021 were the poultry (16.30 percent of the total), field crops (12.77 percent), forestry (11.00 percent), cattle (7.73 percent), and grains (6.42 percent) segments. The allowance for loan losses was 0.66 percent, 0.68 percent, and 0.71 percent of total loans outstanding at September 30, 2021, December 31, 2020, and September 30, 2020, respectively.

**INVESTMENTS**

The Bank is responsible for meeting the District's funding, liquidity and asset/liability management needs. Along with normal cash flows associated with lending operations, the District has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation, and cash and investments. The Bank also maintains several repurchase agreement facilities. In addition, the System has established a line of credit in the event contingency funding is needed to meet obligations of System banks.

The Bank's investments are primarily classified as available-for-sale investments. Refer to the Bank's Third Quarter 2021 Report for additional information related to investments. District Associations also have regulatory authority to enter into certain government guaranteed investments, generally mortgage-backed or asset-backed securities. There were no impairment losses recorded by the District during the nine months ended September 30, 2021 or 2020. As of September 30, 2021, one Association had recorded cumulative impairment losses of $184 thousand on one investment security. The following tables summarize the District's investments:

| | September 30, 2021 | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | **Amortized Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** |
| District Bank investments | $ 9,175,379 | $ 129,818 | $ (45,818) | $ 9,259,379 |
| District Association investments | 31,846 | 3,456 | (79) | 35,223 |
| Total District investments | $ 9,207,225 | $ 133,274 | $ (45,897) | $ 9,294,602 |

| | December 31, 2020 | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | **Amortized Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** |
| District Bank investments | $ 8,324,899 | $ 199,536 | $ (3,850) | $ 8,520,585 |
| District Association investments | 35,549 | 5,224 | (186) | 40,587 |
| Total District investments | $ 8,360,448 | $ 204,760 | $ (4,036) | $ 8,561,172 |

**CAPITAL**

Capital serves to support future asset growth, investment in new products and services, and to provide protection against credit, interest rate, and other risks, as well as operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

Total shareholders' equity increased $434.9 million, or 6.12 percent, from December 31, 2020 to $7.542 billion at September 30, 2021. This increase is primarily attributed to 2021 unallocated retained earnings from net income of $615.5 million, a $25.6 million reduction in unrealized losses on employee benefit plans, and net issuance of $13.6 million in capital stock and participation certificates, partially offset by a decrease in net unrealized gains on investments of $109.3 million primarily due to an increase in interest rates which decreased the fair value of existing available-for-sale fixed-rate investment securities, patronage distributions of $55.3 million, $39.2 million of retained earnings retired, and $16.8 million of preferred stock retired.

During 2021, the Bank repurchased, through privately negotiated transactions, and subsequently cancelled, Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with par value totaling $16.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $16.8 million and to increase additional paid-in capital by $4.8 million.

The following table summarizes accumulated other comprehensive income (AOCI) balances at period end:

| *(dollars in thousands)* | September 30, 2021 | December 31, 2020 |
|---|---|---|
| **Accumulated Other Comprehensive Income (Loss)** | | |
| Unrealized gain (loss) on investment securities | $ 81,515 | $ 190,792 |
| Derivatives and hedging activity | 222 | 287 |
| Employee benefit plans activity | (330,847) | (356,429) |
| Total accumulated other comprehensive income (loss) | $ (249,110) | $ (165,350) |

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. The Bank and all Associations exceeded regulatory capital requirements, as demonstrated in the following table. These ratios are calculated using a three-month average daily balance.

**Regulatory Capital Requirements and Ratios**

| As of September 30, 2021 | Primary Components of Numerator | Regulatory Minimums | Minimum with Buffer | Bank | District Associations |
|---|---|---|---|---|---|
| **Risk adjusted:** | | | | | |
| Common equity tier 1 capital ratio | Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1] | 4.50 % | 7.00 % | 18.45% | 14.80 % - 33.74 % |
| Tier 1 capital ratio | CET1 capital, non-cumulative perpetual preferred stock | 6.00 % | 8.50 % | 18.71% | 14.80 % - 33.74 % |
| Total capital ratio | Tier 1 capital, allowance for loan losses[2], common cooperative equities[3] and term preferred stock and subordinated debt[4] | 8.00 % | 10.50 % | 18.86% | 16.50 % - 34.71 % |
| Permanent capital ratio | Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits | 7.00 % | 7.00 % | 18.74% | 15.69 % - 34.05 % |
| **Non-risk adjusted:** | | | | | |
| Tier 1 leverage ratio* | Tier 1 capital | 4.00 % | 5.00 % | 6.72% | 14.28 % - 32.44 % |
| URE and UREE component | URE and URE equivalents | 1.50 % | 1.50 % | 5.92% | 9.66 % - 32.90 % |

*[1] Equities outstanding 7 or more years*
*[2] Capped at 1.25% of risk-adjusted assets*
*[3] Outstanding 5 or more years, but less than 7 years*
*[4] Outstanding 5 or more years*
** At least 1.50% must be URE and URE equivalents*

## REGULATORY MATTERS

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

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

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

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

## OTHER MATTERS

### *Direct Notes*

See the *Direct Notes* section of *Management's Discussion & Analysis of Financial Condition & Results of Operations* in the AgFirst Farm Credit Bank Third Quarter 2021 Report for a discussion of the Bank's funding to District Associations.

### *Association Merger*

On August 31, 2021, the boards of MidAtlantic Farm Credit, ACA and AgChoice Farm Credit, ACA announced intentions to pursue a merger. The Associations, with combined total assets of $5.5 billion, anticipate a merger date of July 1, 2022 subject to receiving all regulatory and shareholder approvals required.

### *Future of LIBOR*

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

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

The Bank and Associations have exposure to LIBOR arising from loans made to customers, investment securities purchased, Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf, and preferred stock issued by the Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

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

The Bank and Associations have implemented LIBOR transition plans and continue to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

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

On October 20, 2021, the U.S. prudential regulators issued a joint statement emphasizing the expectation that supervised institutions with LIBOR exposure continue to progress toward an orderly transition away from LIBOR, reiterating that supervised institutions should, with limited exceptions, cease entering into new contracts that use US dollar LIBOR as a reference rate as soon as practicable, but no later than December 31, 2021. They further stated that entering into new contracts, including derivatives, after that date would create safety and soundness risks. The joint statement clarified that entering into such new contracts would include an agreement that (1) creates additional LIBOR disclosure or (2) extends the term of an existing LIBOR contract, but that a draw on an existing agreement that is legally enforceable, e.g., a committed credit facility, would not be a new contract. The joint statement also provided considerations when assessing the appropriateness of alternative reference rates used in lieu of LIBOR and the regulator expectation that new or updated LIBOR contracts include strong and clearly defined fallback rates for when the initial reference rate is discontinued.

The following is a summary of District variable-rate financial instruments outstanding with LIBOR exposure at September 30, 2021:

| *(dollars in millions)* | **Due in 2021** | **Due in 2022** | **Due in 2023 on or before June 30** | **Due after June 30, 2023** | **Total** |
|---|---|---|---|---|---|
| Investments | $ — | $ 1 | $ — | $ 1,122 | $ 1,123 |
| Loans | 202 | 252 | 145 | 4,334 | 4,933 |
| Total | $ 202 | $ 253 | $ 145 | $ 5,456 | $ 6,056 |
| Systemwide debt securities | $ 350 | $ 275 | $ 35 | $ — | $ 660 |
| Preferred stock | — | — | — | 33 | 33 |
| Total | $ 350 | $ 275 | $ 35 | $ 33 | $ 693 |

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after December 31, 2021 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. As of September 30, 2021, less than 1 percent of total District investments, and approximately 2 percent of total District loans and 1 percent of Systemwide debt securities maturing after December 31, 2021 do not contain fallback provisions. The Bank's preferred stock may be redeemed on any five-year anniversary of its issuance. The next redemption date for the preferred stock is June, 2022.

# Balance Sheets

*(unaudited)*

| *(dollars in thousands)* | | September 30, 2021 | | December 31, 2020 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | **$** | **488,693** | $ | 698,542 |
| Cash equivalents | | **200,000** | | 520,000 |
| Investments in debt securities: | | | | |
| Available-for-sale (amortized cost of $9,155,442 and $8,294,821, respectively) | | **9,236,708** | | 8,485,350 |
| Held-to-maturity (fair value of $57,894 and $75,822, respectively) | | **51,783** | | 65,627 |
| Total investments in debt securities | | **9,288,491** | | 8,550,977 |
| Loans | | **33,815,128** | | 32,170,077 |
| Allowance for loan losses | | **(222,800)** | | (220,261) |
| Net loans | | **33,592,328** | | 31,949,816 |
| Loans held for sale | | **4,252** | | 19,063 |
| Accrued interest receivable | | **264,369** | | 233,375 |
| Accounts receivable | | **79,215** | | 119,391 |
| Equity investments in other Farm Credit institutions | | **54,043** | | 52,717 |
| Other investments | | **2,424** | | 1,794 |
| Premises and equipment, net | | **238,497** | | 224,578 |
| Other property owned | | **8,809** | | 10,751 |
| Other assets | | **70,200** | | 66,458 |
| Total assets | **$** | **44,291,321** | $ | 42,447,462 |
| **Liabilities** | | | | |
| Systemwide bonds payable | **$** | **29,698,026** | $ | 25,693,876 |
| Systemwide and other notes payable | | **6,543,628** | | 8,803,180 |
| Accrued interest payable | | **36,271** | | 27,891 |
| Accounts payable | | **113,645** | | 430,504 |
| Advanced conditional payments | | **14,025** | | 10,601 |
| Other liabilities | | **343,265** | | 373,890 |
| Total liabilities | | **36,748,860** | | 35,339,942 |
| **Shareholders' Equity** | | | | |
| Perpetual preferred stock | | **32,500** | | 49,250 |
| Protected borrower equity | | **446** | | 446 |
| Capital stock and participation certificates | | **192,104** | | 178,388 |
| Additional paid-in-capital | | **87,363** | | 82,573 |
| Retained earnings | | | | |
| Allocated | | **2,233,101** | | 2,264,776 |
| Unallocated | | **5,246,057** | | 4,697,437 |
| Accumulated other comprehensive income (loss) | | **(249,110)** | | (165,350) |
| Total shareholders' equity | | **7,542,461** | | 7,107,520 |
| Total liabilities and equity | **$** | **44,291,321** | $ | 42,447,462 |

# Statements of Comprehensive Income

*(unaudited)*

| *(dollars in thousands)* | For the Three Months Ended September 30, 2021 | For the Three Months Ended September 30, 2020 | For the Nine Months Ended September 30, 2021 | For the Nine Months Ended September 30, 2020 |
|---|---|---|---|---|
| **Interest Income** | | | | |
| Investments | **$ 33,747** | $ 36,854 | **$ 98,387** | $ 127,183 |
| Loans | **356,784** | 350,882 | **1,041,446** | 1,090,695 |
| Other | **36** | 623 | **114** | 1,965 |
| Total interest income | **390,567** | 388,359 | **1,139,947** | 1,219,843 |
| **Interest Expense** | **48,634** | 61,245 | **135,779** | 312,067 |
| Net interest income | **341,933** | 327,114 | **1,004,168** | 907,776 |
| Provision for loan losses | **5,036** | 1,297 | **4,094** | 16,557 |
| Net interest income after provision for loan losses | **336,897** | 325,817 | **1,000,074** | 891,219 |
| **Noninterest Income** | | | | |
| Loan fees | **10,010** | 9,411 | **41,788** | 31,212 |
| Fees for financially related services | **4,381** | 3,653 | **11,232** | 7,996 |
| Lease income | **1,010** | 966 | **2,899** | 2,832 |
| Gains (losses) on investments, net | **—** | — | **330** | 7,215 |
| Gains (losses) on debt extinguishment | **(4,370)** | (14,353) | **(9,204)** | (58,300) |
| Gains (losses) on other transactions | **2,289** | 12,629 | **9,639** | 17,963 |
| Insurance premium refund | **—** | — | **—** | 6,813 |
| Other noninterest income | **1,884** | 1,669 | **8,787** | 7,650 |
| Total noninterest income | **15,204** | 13,975 | **65,471** | 23,381 |
| **Noninterest Expenses** | | | | |
| Salaries and employee benefits | **85,884** | 81,908 | **260,803** | 245,223 |
| Occupancy and equipment | **7,050** | 7,028 | **20,661** | 20,390 |
| Insurance Fund premiums | **11,965** | 7,914 | **34,901** | 19,118 |
| Other operating expenses | **46,242** | 42,301 | **132,593** | 122,766 |
| Losses (gains) from other property owned | **(91)** | 230 | **—** | 1,663 |
| Total noninterest expenses | **151,050** | 139,381 | **448,958** | 409,160 |
| Income before income taxes | **201,051** | 200,411 | **616,587** | 505,440 |
| Provision for income taxes | **625** | 127 | **1,132** | 700 |
| **Net income** | **$ 200,426** | $ 200,284 | **$ 615,455** | $ 504,740 |
| **Other comprehensive income net of tax:** | | | | |
| Unrealized gains (losses) on investments | **$ (63,808)** | $ 2,358 | **$ (109,277)** | $ 152,345 |
| Change in value of cash flow hedges | **(24)** | (79) | **(65)** | (215) |
| Employee benefit plans adjustments | **8,528** | 9,048 | **25,582** | 27,143 |
| Other comprehensive income (loss) | **(55,304)** | 11,327 | **(83,760)** | 179,273 |
| **Comprehensive income** | **$ 145,122** | $ 211,611 | **$ 531,695** | $ 684,013 |

## DISTRICT ASSOCIATIONS

As of September 30, 2021

| Associations | Direct Notes | % of Direct Note Total | Total Assets | Total Allowance and Capital | Total Regulatory Capital Ratio | Nonperforming Loans as a % of Total Loans | ROA |
|---|---|---|---|---|---|---|---|
| *(dollars in thousands)* | | | | | | | |
| AgCarolina | $ 994,003 | 4.88 % | $ 1,317,235 | $ 322,769 | 20.51 % | 1.44 % | 1.83 % |
| AgChoice | 2,004,871 | 9.84 | 2,506,378 | 496,748 | 17.32 | 0.31 | 1.97 |
| AgCredit | 1,982,573 | 9.73 | 2,433,744 | 440,904 | 21.10 | 0.26 | 2.41 |
| AgGeorgia | 899,261 | 4.41 | 1,178,621 | 273,197 | 22.23 | 2.96 | 1.98 |
| AgSouth | 1,623,429 | 7.97 | 2,094,820 | 463,008 | 21.95 | 1.03 | 2.43 |
| ArborOne | 489,202 | 2.40 | 597,858 | 113,991 | 18.33 | 3.02 | 1.81 |
| Cape Fear | 834,533 | 4.09 | 1,082,745 | 249,226 | 20.75 | 0.97 | 2.49 |
| Carolina | 1,431,136 | 7.02 | 1,825,905 | 367,450 | 19.67 | 0.89 | 2.17 |
| Central Florida | 574,086 | 2.82 | 715,157 | 130,305 | 18.04 | 1.10 | 1.88 |
| Central Kentucky | 535,600 | 2.63 | 656,951 | 121,849 | 19.10 | 0.56 | 2.42 |
| Colonial | 551,418 | 2.71 | 760,083 | 204,116 | 24.77 | 0.18 | 1.93 |
| First South | 2,263,222 | 11.11 | 2,829,858 | 534,601 | 17.21 | 0.15 | 1.58 |
| Florida | 1,033,193 | 5.07 | 1,369,917 | 327,074 | 19.77 | 0.50 | 2.01 |
| MidAtlantic | 2,310,533 | 11.34 | 3,043,480 | 696,998 | 21.55 | 2.39 | 1.77 |
| Northwest Florida | 231,751 | 1.14 | 323,580 | 93,724 | 26.83 | 0.73 | 1.66 |
| Puerto Rico | 111,420 | 0.55 | 168,952 | 57,581 | 34.71 | 6.40 | 0.82 |
| River Valley | 444,382 | 2.18 | 565,024 | 113,565 | 20.33 | 2.34 | 1.59 |
| Southwest Georgia | 528,710 | 2.59 | 641,152 | 112,251 | 16.50 | 0.54 | 2.05 |
| Virginias | 1,536,296 | 7.54 | 2,027,622 | 490,386 | 22.68 | 2.11 | 1.46 |

**AgFirst Farm Credit Bank**

AgFirst Farm Credit Bank
1901 Main Street
Columbia, SC 29201
800-845-1745
www.agfirst.com

**AgFirst District Associations**

AgCarolina Farm Credit, ACA
4000 Poole Road
Raleigh, NC 27610
919-250-9500
http://www.agcarolina.com

AgChoice Farm Credit, ACA
300 Winding Creek Blvd.
Mechanicsburg, PA 17050
717-796-9372
http://www.agchoice.com

AgCredit Agricultural Credit Association
610 W. Lytle Street
Fostoria, OH 44830-3422
419-435-7758
http://www.agcredit.net

AgGeorgia Farm Credit, ACA
468 Perry Parkway
Perry, GA 31069
478-987-8300
http://www.aggeorgia.com

AgSouth Farm Credit, ACA
26 South Main Street
Statesboro, GA 30458
912-764-9091
http://www.agsouthfc.com

ArborOne, ACA
800 Woody Jones Blvd.
Florence, SC 29501
843-662-1527
http://www.arborone.com

Cape Fear Farm Credit, ACA
333 East Russell Street
Fayetteville, NC 28302
910-323-9188
https://www.capefearfc.com

Carolina Farm Credit, ACA
146 Victory Lane
Statesville, NC 28625
704-873-0276
http://www.carolinafarmcredit.com

Central Kentucky Agricultural Credit Association
640 S. Broadway
Lexington, KY 40508
859-253-3249
http://www.agcreditonline.com

Colonial Farm Credit, ACA
7104 Mechanicsville Turnpike
Mechanicsville, VA 23111
804-746-1252
http://www.colonialfarmcredit.com

Farm Credit of Central Florida, ACA
204 East Orange Street, Suite 200
Lakeland, FL 33801
863-682-4117
http://www.farmcreditcfl.com

Farm Credit of Florida, ACA
11903 Southern Boulevard Suite 200
West Palm Beach, FL 33411
561-965-9001
http://farmcreditfl.com

Farm Credit of Northwest Florida, ACA
5052 Highway 90 East
Marianna, FL 32446
850-526-4910
http://farmcredit-fl.com

Farm Credit of the Virginias, ACA
106 Sangers Lane
Staunton, VA 24401
540-886-3435
http://www.farmcreditofvirginias.com

First South Farm Credit, ACA
574 Highland Colony Parkway, Suite 100
Ridgeland, MS 39157
601-977-8381
http://www.firstsouthfarmcredit.com

MidAtlantic Farm Credit, ACA
45 Aileron Court
Westminster, MD 21157
410-848-1033
http://www.mafc.com

Puerto Rico Farm Credit, ACA
213 Domenech Ave.
San Juan, PR 00918
787-753-0579
http://www.prfarmcredit.com

River Valley AgCredit, ACA
408 East Broadway
Mayfield, KY 42066
270-247-5613
http://www.rivervalleyagcredit.com

Southwest Georgia Farm Credit, ACA
305 Colquitt Highway
Bainbridge, GA 39817
229-246-0384
http://www.swgafarmcredit.com

AgFirst
FARM CREDIT BANK

1901 Main Street
Columbia, SC 29201

AgFirst.com