
MidAtlantic Farm Credit, ACA
THIRD QUARTER 2021

TABLE OF CONTENTS

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

CERTIFICATION

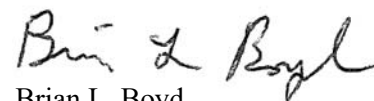
The undersigned certify that we have reviewed the September 30, 2021 quarterly report of MidAtlantic Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory and regulatory requirements, and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



Thomas H. Truitt, Jr.
Chief Executive Officer



Brian E. Rosati
Chief Financial Officer



Brian L. Boyd
Chair of the Board

November 8, 2021

MidAtlantic Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2021. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of September 30, 2021, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2021.



Thomas H. Truitt, Jr.
Chief Executive Officer



Brian E. Rosati
Chief Financial Officer

November 8, 2021

MidAtlantic Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of MidAtlantic Farm Credit, ACA (Association) for the period ended September 30, 2021. The comments contained in this report should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2020 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for the financing of short-term and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio encompasses a well-diversified range of agricultural commodities, with cash grains, poultry and dairy representing the largest segments. In addition, the Association provides loans to lessors of agricultural real estate. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, impacts the level of dependency on any particular commodity.

Comparison of September 30, 2021 to December 31, 2020

Loans at September 30, 2021 totaled \$2,995,576 compared to \$2,905,638 at December 31, 2020, an increase of \$89,938 (3.10 percent) during the nine months. The increase is principally related to an increase in Originated Loans. The Association's allowance for loan losses of \$36,379 increased \$248 (0.69 percent) during the first nine months of 2021, resulting in net loans (loans less allowance for loan losses) of \$2,959,197 and \$2,869,507 at September 30, 2021 and December 31, 2020, respectively. Nonaccrual loans decreased \$3,241 (7.45 percent) from \$43,524 at December 31, 2020 to \$40,283 at September 30, 2021, resulting in a decrease in the ratio of nonaccrual loans to total loans from 1.50 percent to 1.34 percent. The decrease in nonaccrual loans was principally related to accounts within the fruits & vegetables commodity group. In addition, Other property owned decreased from \$1,661 at December 31, 2020 (seven properties) to \$1,646 at September 30, 2021 (eight properties).

There is an inherent risk in the extension of any type of credit and, accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio. Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. The allowance for loan losses represented 1.21 percent and 1.24 percent of loans, and 90.31 percent and 83.01 percent of nonaccrual loans, at September 30, 2021 and December 31, 2020, respectively. See also Note 2, Loans and Allowance for Loan Losses, in the Notes to the Consolidated Financial Statements.

The Association supported approximately \$8.3 million 2021 Paycheck Protection Program (PPP) loans of which AgFirst Farm Credit Bank (the Bank) purchased 100 percent of these loans as of September 30, 2021. The loan program generated approximately \$750 of loan fees for the volume sold to the Bank, which were included in the Noninterest Income section on the Consolidated Statements of Comprehensive Income. See also *COVID-19 Overview* and *COVID-19 Support Programs*.

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. The Association has taken steps to re-open offices at almost full capacity, as of October 1, 2021, while following standard safety protocols such as social distancing and enhanced cleaning.

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 Association's 2020 Annual Report.

COVID-19 SUPPORT PROGRAMS

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

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

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

The previously enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was amended by subsequent legislation, included the Paycheck Protection Program (PPP). The PPP provided support to small businesses to cover payroll and certain other expenses. Loans made under the PPP were fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States. As of September 30, 2021, the Association had \$17.2 million of loans outstanding to approximately 337 borrowers for the 2020 PPP program and \$8.3 million of loans outstanding to approximately 264 borrowers for the 2021 PPP program. In addition, through September 30, 2021, the volume of loans that have received forgiveness from the SBA since the start of the program was \$20.3 million forgiven.

For a detailed discussion of programs enacted in 2020, see page 25 of the 2020 Annual Report found on the Association's website, www.mafc.com.

RESULTS OF OPERATIONS

For the three months ended September 30, 2021

Net income for the three months ended September 30, 2021 totaled \$13,767, an increase of \$1,976 (16.76 percent) compared to the three months ended September 30, 2020. Major changes in the components of net income are identified as follows:

- Net interest income for the three months was up \$2,534 (14.92 percent); there are several key factors impacting the results. The increase in net interest income is primarily attributable to (a) a \$2,446 increase due to both a change in interest rate and a \$100 million increase in the average daily balance of accruing portfolio volume, and (b) a \$590 increase in net interest recognized attributable to nonaccruing loans, partially offset by (c) an 11.58 percent decrease in the interest credit rate aggregately decreasing net interest income \$502.
- The Association recorded no provision for loan losses in the third quarter of 2021. A provision for loan losses of \$1,000 was recorded in the third quarter of 2020. The Association's nonaccrual loans to total loans decreased from 1.50 percent at December 31, 2020 to 1.34 percent of the portfolio at September 30, 2021, and decreased from 1.83 percent at September 30, 2020. See also Note 2, Loans and Allowance for Loan Losses, in the Notes to the Consolidated Financial Statements.
- "Patronage refunds from other Farm Credit institutions" on the Consolidated Statements of Comprehensive Income of \$4,370 and \$4,199, respectively, includes accruals for the quarter ended September 30, 2021 and 2020, based on third quarter operations only; management anticipates additional income for the remaining quarters in 2021. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income.
- Noninterest income decrease in the third quarter of \$5 (0.08 percent) included (a) a decrease of \$157 due to decreased gains on disposal of properties, (b) a decrease of \$91 due to lower gains on sales of rural home loans, net, (c) a decrease of \$5 in Other noninterest income, partially offset by (d) a \$171 increase in Patronage related income, (e) an increase of \$64 from Fees for financial related services, and (f) an increase of \$13 from Loan fees.

- Noninterest expense for the third quarter of 2021 was \$12,259 as compared to \$10,676 for the same period of 2020 or an increase of \$1,583 (14.83 percent).

The three month increase of \$1,206 (15.95 percent) for Salaries and employee benefits includes unfavorable employee benefits of \$480 and unfavorable deferred personnel costs of \$84. Salaries increased \$642 (11.13 percent) due to annual compensation increases, hiring new staff, and additional operational efforts as a result of the COVID-19 pandemic. See also Note 7, Employee Benefit Plans, in the Notes to the Consolidated Financial Statements.

Insurance Fund Premium expense increased \$294 (48.68 percent) due to (a) the increase in the Farm Credit System Insurance Corporation (FCSIC) premium from 0.11 percent for the third quarter of 2020 to 0.16 percent for the third quarter of 2021, and (b) the increase in loan volume during the third quarter of 2021 as compared to the third quarter of 2020.

Occupancy and equipment and Other operating expenses increased \$183 (7.38 percent) from \$2,481 to \$2,664, which includes increases in training and travel expenses.

- Gains on other property owned, net increased \$100. The increase is primarily related to more gains on OPO sales in the third quarter of 2021 as compared to the third quarter of 2020.
- The Association recorded a Provision for income taxes of \$118 and \$148 for the third quarters of 2021 and 2020, respectively.

For the nine months ended September 30, 2021

Net income for the nine months ended September 30, 2021 totaled \$39,202 or \$2,538 (6.92 percent) more than the nine months ended September 30, 2020. Major changes in the components of net income are identified as follows:

- Net interest income for the nine months was up \$4,359 (8.20 percent); there are several key factors impacting the results. The increase in net interest income is primarily attributable to (a) a \$5,493 increase due to both a change in interest rate and a \$59 million increase in the average daily balance of accruing portfolio volume, and (b) a \$1,496 increase in net interest recognized attributable to nonaccruing loans, partially offset by (c) a decrease in the interest credit rate aggregately decreasing net interest income \$2,630.

- Recoveries and a decrease in nonaccrual loans required no provision for loan losses to be recorded in the first nine months of 2021 as compared to a \$4,000 provision in the first nine months of 2020.

- “Patronage refunds from other Farm Credit institutions” on the Consolidated Statements of Comprehensive Income is \$12,845 as compared to \$12,779 for the nine months ended September 30, 2021 and 2020. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income.

- Noninterest income for the nine months was down \$158 (0.82 percent). The decrease is primarily related to (a) an Insurance Fund refund of \$553 received in 2020, with no such refund in 2021, (b) a decrease of \$67 from Loan fees, (c) a decrease of \$5 in Other noninterest income, partially offset by (d) an increase of \$253 due to higher gains on disposal of properties, (e) an increase of \$148 from Fees for financially related services, and (f) an increase of \$66 in Patronage related income.

- Noninterest expense increased \$5,673 (18.11 percent) for the first nine months of 2021 as compared to 2020.

The year-to-date increase for Salaries and employee benefits of \$3,983 (18.00 percent) includes (a) an increase of \$2,148 (12.56 percent) in salaries due to annual compensation increases, hiring new staff, additional operational efforts as a result of the COVID-19 pandemic, and an increase in PTO costs, (b) unfavorable employee benefits of \$1,588, and (c) unfavorable deferred personnel costs of \$247.

Insurance fund premium expense increased \$1,153 (77.80 percent) due to (a) the increase in the Farm Credit System Insurance Corporation (FCSIC) premium rate from 0.08 percent for the first six months of 2020 to 0.11 percent for the third quarter of 2020 to 0.16 percent for the first nine months of 2021, and (b) the increase in loan volume during the first nine months of 2021 as compared to 2020.

Occupancy and equipment and Other operating expenses increased \$597 (7.92 percent) from \$7,534 to \$8,131, which includes increases in purchased services expenses, and training and travel expenses.

- Losses on other property owned, net decreased \$60. The decrease is primarily related to more gains on OPO sales which offset additional expenses for the first nine months of 2021 as compared to 2020.

- The Association recorded a Provision for income taxes of \$334 and \$344, for the nine months ended September 30, 2021 and 2020, respectively.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The Association utilizes the variable rate note to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Notes payable to the Bank at September 30, 2021 was \$2,310,533 compared to \$2,229,163 at December 31, 2020. This increase during the period of \$81,370 (3.65 percent) corresponds to the increase in the Association's loan volume, receipt of prior year Bank patronage, current year net cash generated from operating activities, offset by patronage payments to stockholders.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2021 that would affect minimum stock purchases or have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at September 30, 2021 totaled \$660,619, a decrease of \$4,705 (0.71 percent) compared to total members' equity of \$665,324 at December 31, 2020. This decrease is attributed to (a) Total Comprehensive income of \$39,214 for the first nine months ended September 30, 2021, (b) net member capital stock/participation certificates issued of \$331, (c) an estimated \$41,250 cash patronage distribution accrual for the first nine months of 2021, and (d) in 2021 the Association's Board approved an additional \$3,000 2020 cash patronage distribution to stockholders in the March 2021 distribution.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. The System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The Tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is Tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The Tier 1 leverage ratio is Tier 1 capital, divided by average assets less regulatory deductions to Tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to Tier 1 capital.

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

Ratio	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2021	Capital Ratios as of September 30, 2020
Risk-adjusted ratios:			
CET1 Capital	7.00%	20.35%	20.38%
Tier 1 Capital	8.50%	20.35%	20.38%
Total Capital	10.50%	21.55%	21.85%
Permanent Capital Ratio	7.00%	20.59%	20.92%
Non-risk-adjusted:			
Tier 1 Leverage Ratio	5.00%	21.73%	21.76%
UREE Leverage Ratio	1.50%	21.62%	21.75%

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

Future of LIBOR

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

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

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

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

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

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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> • Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted. 	<ul style="list-style-type: none"> • Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretible difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts, at the adoption date. • The guidance is expected to be adopted January 1, 2023.

SHAREHOLDER INVESTMENT

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

WHISTLEBLOWER

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline at 1-844-321-9164 or www.convercent.com/report.

NOTICE OF SIGNIFICANT EVENTS

On August 31, 2021, the Board of Directors of MidAtlantic Farm Credit, ACA and AgChoice Farm Credit, ACA signed a letter of intent to merge the two associations and entered into an Agreement and Plan of Merger. This initiates the due diligence phase of the merger process, which each Association is in the process of completing. This merger is subject to FCA and shareholder approval. If approved by all required parties the merger is expected to take effect upon the commencement of business on July 1, 2022. Shareholders as of August 31, 2021 were provided written communication regarding the potential transaction.

MidAtlantic Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2021 <i>(unaudited)</i>	December 31, 2020 <i>(audited)</i>
Assets		
Cash	\$ 5	\$ 228
Loans	2,995,576	2,905,638
Allowance for loan losses	(36,379)	(36,131)
Net loans	2,959,197	2,869,507
Loans held for sale	255	2,894
Other investments	246	113
Accrued interest receivable	18,885	14,454
Equity investments in other Farm Credit institutions	30,313	30,257
Premises and equipment, net	15,187	15,931
Other property owned	1,646	1,661
Accounts receivable	13,583	43,347
Other assets	4,163	3,726
Total assets	\$ 3,043,480	\$ 2,982,118
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 2,310,533	\$ 2,229,163
Accrued interest payable	4,345	4,430
Patronage refunds payable	41,354	51,791
Accounts payable	4,764	4,188
Advanced conditional payments	63	48
Other liabilities	21,802	27,174
Total liabilities	2,382,861	2,316,794
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	11,731	11,400
Retained earnings		
Allocated	407,028	405,105
Unallocated	242,343	249,314
Accumulated other comprehensive income (loss)	(483)	(495)
Total members' equity	660,619	665,324
Total liabilities and members' equity	\$ 3,043,480	\$ 2,982,118

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

MidAtlantic Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest Income				
Loans	\$ 32,525	\$ 31,153	\$ 95,843	\$ 99,363
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	13,006	14,168	38,332	46,211
Net interest income	19,519	16,985	57,511	53,152
Provision for loan losses	—	1,000	—	4,000
Net interest income after provision for loan losses	19,519	15,985	57,511	49,152
Noninterest Income				
Loan fees	347	334	1,562	1,629
Fees for financially related services	1,477	1,413	3,036	2,888
Lease income	35	35	105	105
Patronage refunds from other Farm Credit institutions	4,370	4,199	12,845	12,779
Gains (losses) on sales of rural home loans, net	334	425	1,080	1,089
Gains (losses) on sales of premises and equipment, net	—	6	36	26
Gains (losses) on other transactions	50	201	323	71
Insurance Fund refunds	—	—	—	553
Other noninterest income	12	17	44	49
Total noninterest income	6,625	6,630	19,031	19,189
Noninterest Expense				
Salaries and employee benefits	8,769	7,563	26,116	22,133
Occupancy and equipment	505	468	1,549	1,445
Insurance Fund premiums	898	604	2,635	1,482
(Gains) losses on other property owned, net	(72)	28	124	184
Other operating expenses	2,159	2,013	6,582	6,089
Total noninterest expense	12,259	10,676	37,006	31,333
Income before income taxes	13,885	11,939	39,536	37,008
Provision for income taxes	118	148	334	344
Net income	\$ 13,767	\$ 11,791	\$ 39,202	\$ 36,664
Other comprehensive income net of tax				
Employee benefit plans adjustments	4	2	12	7
Comprehensive income	\$ 13,771	\$ 11,793	\$ 39,214	\$ 36,671

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2019	\$ 10,974	\$ 409,174	\$ 241,769	\$ (372)	\$ 661,545
Comprehensive income			36,664	7	36,671
Capital stock/participation certificates issued/(retired), net	282				282
Patronage distribution					
Cash			(12,000)		(12,000)
Retained earnings retired		(15,459)			(15,459)
Patronage distribution adjustment		1,993	(1,993)		—
Balance at September 30, 2020	\$ 11,256	\$ 395,708	\$ 264,440	\$ (365)	\$ 671,039
Balance at December 31, 2020	\$ 11,400	\$ 405,105	\$ 249,314	\$ (495)	\$ 665,324
Comprehensive income			39,202	12	39,214
Capital stock/participation certificates issued/(retired), net	331				331
Patronage distribution					
Cash			(41,250)		(41,250)
Patronage distribution adjustment		1,923	(4,923)		(3,000)
Balance at September 30, 2021	\$ 11,731	\$ 407,028	\$ 242,343	\$ (483)	\$ 660,619

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

MidAtlantic Farm Credit, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

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

Organization

The accompanying financial statements include the accounts of MidAtlantic Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2020, are contained in the 2020 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies

The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and

financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period and Applicable to the Association

There were no applicable Updates issued by the Financial Accounting Standards Board (FASB) during the period.

ASUs Pending Effective Date

For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date through the life of the financial instrument. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

Accounting Standards Effective During the Period

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting.

- In October 2020, the FASB issued ASU 2020-10 Codification Improvements. The amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant

effect on current accounting practice or create a significant administrative cost to most entities. The Update moves or references several disclosure requirements from Section 45 - Other Presentation Matters to Section 50 - Disclosures. It also includes minor changes to other guidance such as Cash Balance Plans, Unusual or Infrequent Items, Transfers and Servicing, Guarantees, Income Taxes, Foreign Currency, Imputation of Interest, Not For Profits and Real Estate Projects. The amendments had no impact on the statements of financial condition and results of operations.

- In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Adoption of this guidance had no effect on the statements of financial condition and results of operations.
- In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments simplify the accounting for income taxes by removing the following exceptions:
 - Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income),
 - Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment,
 - Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and
 - Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

The amendments also simplify the accounting for income taxes by doing the following:

- Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax,
- Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction,
- Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; however, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority,
- Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date, and
- Making minor codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Adoption of this guidance did not have a material impact on the statements of financial condition and results of operations.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

	September 30, 2021	December 31, 2020
Real estate mortgage	\$ 1,963,485	\$ 1,866,567
Production and intermediate-term	740,121	737,853
Loans to cooperatives	26,897	27,209
Processing and marketing	81,701	88,494
Farm-related business	53,409	48,852
Communication	45,842	58,449
Power and water/waste disposal	2,265	2,646
Rural residential real estate	56,891	50,612
International	24,965	24,956
Total loans	\$ 2,995,576	\$ 2,905,638

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present the principal balance of participation loans at periods ended:

	September 30, 2021							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 40,156	\$ 3,230	\$ –	\$ –	\$ –	\$ –	\$ 40,156	\$ 3,230
Production and intermediate-term	43,441	69,922	19,443	2,389	–	–	62,884	72,311
Loans to cooperatives	8,460	–	18,486	–	–	–	26,946	–
Processing and marketing	27,589	24,213	3,887	–	5,755	–	37,231	24,213
Farm-related business	1,579	58	68	–	–	–	1,647	58
Communication	20,804	–	25,195	–	–	–	45,999	–
Power and water/waste disposal	–	–	2,267	–	–	–	2,267	–
International	–	–	25,000	–	–	–	25,000	–
Total	\$ 142,029	\$ 97,423	\$ 94,346	\$ 2,389	\$ 5,755	\$ –	\$ 242,130	\$ 99,812

	December 31, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 42,818	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 42,818	\$ –
Production and intermediate-term	44,076	73,020	30,018	2,135	–	–	74,094	75,155
Loans to cooperatives	11,962	–	15,286	–	–	–	27,248	–
Processing and marketing	37,674	17,892	4,141	–	2,538	–	44,353	17,892
Farm-related business	1,579	496	–	–	–	–	1,579	496
Communication	21,260	–	37,342	–	–	–	58,602	–
Power and water/waste disposal	–	–	2,648	–	–	–	2,648	–
International	–	–	25,000	–	–	–	25,000	–
Total	\$ 159,369	\$ 91,408	\$ 114,435	\$ 2,135	\$ 2,538	\$ –	\$ 276,342	\$ 93,543

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

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	September 30, 2021	December 31, 2020		September 30, 2021	December 31, 2020
Real estate mortgage:			Communication:		
Acceptable	93.63%	91.43%	Acceptable	100.00%	100.00%
OAEM	2.46	3.30	OAEM	0.00	0.00
Substandard/doubtful/loss	3.91	5.27	Substandard/doubtful/loss	0.00	0.00
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	93.73%	92.04%	Acceptable	100.00%	100.00%
OAEM	3.33	4.25	OAEM	0.00	0.00
Substandard/doubtful/loss	2.94	3.71	Substandard/doubtful/loss	0.00	0.00
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:			Rural residential real estate:		
Acceptable	81.18%	68.12%	Acceptable	95.92%	95.51%
OAEM	18.82	31.88	OAEM	2.02	2.22
Substandard/doubtful/loss	0.00	0.00	Substandard/doubtful/loss	2.06	2.27
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Processing and marketing:			International:		
Acceptable	100.00%	94.63%	Acceptable	100.00%	100.00%
OAEM	0.00	5.37	OAEM	0.00	0.00
Substandard/doubtful/loss	0.00	0.00	Substandard/doubtful/loss	0.00	0.00
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business:			Total loans:		
Acceptable	94.08%	92.66%	Acceptable	93.92%	91.81%
OAEM	5.40	6.68	OAEM	2.74	3.81
Substandard/doubtful/loss	0.52	0.66	Substandard/doubtful/loss	3.34	4.38
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>

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

	September 30, 2021				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 5,899	\$ 15,634	\$ 21,533	\$ 1,954,594	\$ 1,976,127
Production and intermediate-term	2,431	5,176	7,607	738,026	745,633
Loans to cooperatives	—	—	—	26,926	26,926
Processing and marketing	—	—	—	81,838	81,838
Farm-related business	604	9	613	53,083	53,696
Communication	—	—	—	45,846	45,846
Power and water/waste disposal	—	—	—	2,283	2,283
Rural residential real estate	550	94	644	56,472	57,116
International	—	—	—	24,996	24,996
Total	\$ 9,484	\$ 20,913	\$ 30,397	\$ 2,984,064	\$ 3,014,461

	December 31, 2020				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 6,531	\$ 17,770	\$ 24,301	\$ 1,851,801	\$ 1,876,102
Production and intermediate-term	3,504	6,349	9,853	732,348	742,201
Loans to cooperatives	—	—	—	27,237	27,237
Processing and marketing	—	—	—	88,652	88,652
Farm-related business	78	15	93	48,952	49,045
Communication	—	—	—	58,454	58,454
Power and water/waste disposal	—	—	—	2,667	2,667
Rural residential real estate	311	252	563	50,182	50,745
International	—	—	—	24,989	24,989
Total	\$ 10,424	\$ 24,386	\$ 34,810	\$ 2,885,282	\$ 2,920,092

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

	September 30, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	\$ 30,337	\$ 31,148
Production and intermediate-term	9,316	11,772
Farm-related business	9	15
Rural residential real estate	621	589
Total	<u>\$ 40,283</u>	<u>\$ 43,524</u>
Accruing restructured loans:		
Real estate mortgage	\$ 25,023	\$ 28,842
Production and intermediate-term	5,597	7,316
Farm-related business	141	164
Rural residential real estate	478	490
Total	<u>\$ 31,239</u>	<u>\$ 36,812</u>
Accruing loans 90 days or more past due:		
Total	<u>\$ –</u>	<u>\$ –</u>
Total nonperforming loans	\$ 71,522	\$ 80,336
Other property owned	1,646	1,661
Total nonperforming assets	<u>\$ 73,168</u>	<u>\$ 81,997</u>
Nonaccrual loans as a percentage of total loans	1.34%	1.50%
Nonperforming assets as a percentage of total loans and other property owned	2.44%	2.82%
Nonperforming assets as a percentage of capital	<u>11.08%</u>	<u>12.32%</u>

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	September 30, 2021	December 31, 2020
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 16,964	\$ 18,079
Past due	23,319	25,445
Total	<u>\$ 40,283</u>	<u>\$ 43,524</u>
Impaired accrual loans:		
Restructured	\$ 31,239	\$ 36,812
90 days or more past due	–	–
Total	<u>\$ 31,239</u>	<u>\$ 36,812</u>
Total impaired loans	<u>\$ 71,522</u>	<u>\$ 80,336</u>
Additional commitments to lend	<u>\$ 131</u>	<u>\$ 413</u>

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

	September 30, 2021			Three Months Ended September 30, 2021		Nine Months Ended September 30, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:							
With a related allowance for credit losses:							
Real estate mortgage	\$ 10,575	\$ 11,926	\$ 4,172	\$ 10,364	\$ 110	\$ 11,133	\$ 278
Production and intermediate-term	5,485	6,213	2,766	5,376	57	5,775	144
Farm-related business	9	25	3	8	–	9	–
Rural residential real estate	386	509	77	378	4	406	10
Total	<u>\$ 16,455</u>	<u>\$ 18,673</u>	<u>\$ 7,018</u>	<u>\$ 16,126</u>	<u>\$ 171</u>	<u>\$ 17,323</u>	<u>\$ 432</u>
With no related allowance for credit losses:							
Real estate mortgage	\$ 44,785	\$ 48,844	\$ –	\$ 43,891	\$ 467	\$ 47,148	\$ 1,174
Production and intermediate-term	9,428	11,384	–	9,239	98	9,925	247
Farm-related business	141	284	–	139	2	148	4
Rural residential real estate	713	813	–	698	7	750	19
Total	<u>\$ 55,067</u>	<u>\$ 61,325</u>	<u>\$ –</u>	<u>\$ 53,967</u>	<u>\$ 574</u>	<u>\$ 57,971</u>	<u>\$ 1,444</u>
Total impaired loans:							
Real estate mortgage	\$ 55,360	\$ 60,770	\$ 4,172	\$ 54,255	\$ 577	\$ 58,281	\$ 1,452
Production and intermediate-term	14,913	17,597	2,766	14,615	155	15,700	391
Farm-related business	150	309	3	147	2	157	4
Rural residential real estate	1,099	1,322	77	1,076	11	1,156	29
Total	<u>\$ 71,522</u>	<u>\$ 79,998</u>	<u>\$ 7,018</u>	<u>\$ 70,093</u>	<u>\$ 745</u>	<u>\$ 75,294</u>	<u>\$ 1,876</u>

Impaired loans:	December 31, 2020			Year Ended December 31, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 12,022	\$ 13,495	\$ 4,252	\$ 12,304	\$ 347
Production and intermediate-term	7,374	8,192	3,954	7,548	213
Farm-related business	15	31	4	16	—
Rural residential real estate	398	479	140	407	11
Total	\$ 19,809	\$ 22,197	\$ 8,350	\$ 20,275	\$ 571
With no related allowance for credit losses:					
Real estate mortgage	\$ 47,968	\$ 52,119	\$ —	\$ 49,097	\$ 1,383
Production and intermediate-term	11,714	14,322	—	11,989	338
Farm-related business	164	307	—	167	5
Rural residential real estate	681	761	—	697	20
Total	\$ 60,527	\$ 67,509	\$ —	\$ 61,950	\$ 1,746
Total impaired loans:					
Real estate mortgage	\$ 59,990	\$ 65,614	\$ 4,252	\$ 61,401	\$ 1,730
Production and intermediate-term	19,088	22,514	3,954	19,537	551
Farm-related business	179	338	4	183	5
Rural residential real estate	1,079	1,240	140	1,104	31
Total	\$ 80,336	\$ 89,706	\$ 8,350	\$ 82,225	\$ 2,317

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at June 30, 2021	\$ 15,405	\$ 18,261	\$ 2,227	\$ 113	\$ 2	\$ 272	\$ 26	\$ 36,306
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	1	72	—	—	—	—	—	73
Provision for loan losses	23	259	(263)	(25)	(1)	11	(4)	—
Balance at September 30, 2021	\$ 15,429	\$ 18,592	\$ 1,964	\$ 88	\$ 1	\$ 283	\$ 22	\$ 36,379
Balance at December 31, 2020	\$ 15,617	\$ 18,333	\$ 1,719	\$ 115	\$ 2	\$ 323	\$ 22	\$ 36,131
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	155	93	—	—	—	—	—	248
Provision for loan losses	(343)	166	245	(27)	(1)	(40)	—	—
Balance at September 30, 2021	\$ 15,429	\$ 18,592	\$ 1,964	\$ 88	\$ 1	\$ 283	\$ 22	\$ 36,379
Balance at June 30, 2020	\$ 14,447	\$ 18,944	\$ 1,192	\$ 191	\$ 2	\$ 406	\$ 22	\$ 35,204
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	3	18	—	—	—	—	—	21
Provision for loan losses	1,812	(660)	(10)	(67)	—	(75)	—	1,000
Balance at September 30, 2020	\$ 16,262	\$ 18,302	\$ 1,182	\$ 124	\$ 2	\$ 331	\$ 22	\$ 36,225
Balance at December 31, 2019	\$ 12,754	\$ 17,841	\$ 998	\$ 139	\$ 2	\$ 441	\$ 22	\$ 32,197
Charge-offs	—	(3)	—	—	—	—	—	(3)
Recoveries	10	21	—	—	—	—	—	31
Provision for loan losses	3,498	443	184	(15)	—	(110)	—	4,000
Balance at September 30, 2020	\$ 16,262	\$ 18,302	\$ 1,182	\$ 124	\$ 2	\$ 331	\$ 22	\$ 36,225
Allowance on loans evaluated for impairment:								
Individually	\$ 4,172	\$ 2,766	\$ 3	\$ —	\$ —	\$ 77	\$ —	\$ 7,018
Collectively	11,257	15,826	1,961	88	1	206	22	29,361
Balance at September 30, 2021	\$ 15,429	\$ 18,592	\$ 1,964	\$ 88	\$ 1	\$ 283	\$ 22	\$ 36,379
Individually	\$ 4,252	\$ 3,954	\$ 4	\$ —	\$ —	\$ 140	\$ —	\$ 8,350
Collectively	11,365	14,379	1,715	115	2	183	22	27,781
Balance at December 31, 2020	\$ 15,617	\$ 18,333	\$ 1,719	\$ 115	\$ 2	\$ 323	\$ 22	\$ 36,131
Recorded investment in loans evaluated for impairment:								
Individually	\$ 30,337	\$ 9,316	\$ 9	\$ —	\$ —	\$ 621	\$ —	\$ 40,283
Collectively	1,945,790	736,317	162,451	45,846	2,283	56,495	24,996	2,974,178
Balance at September 30, 2021	\$ 1,976,127	\$ 745,633	\$ 162,460	\$ 45,846	\$ 2,283	\$ 57,116	\$ 24,996	\$ 3,014,461
Individually	\$ 31,148	\$ 11,772	\$ 15	\$ —	\$ —	\$ 589	\$ —	\$ 43,524
Collectively	1,844,954	730,429	164,919	58,454	2,667	50,156	24,989	2,876,568
Balance at December 31, 2020	\$ 1,876,102	\$ 742,201	\$ 164,934	\$ 58,454	\$ 2,667	\$ 50,745	\$ 24,989	\$ 2,920,092

*Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

Three Months Ended September 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ –	\$ 397	\$ –	\$ 397	
Production and intermediate-term	–	2,934	–	2,934	
Rural residential real estate	–	81	–	81	
Total	\$ –	\$ 3,412	\$ –	\$ 3,412	
Post-modification:					
Real estate mortgage	\$ –	\$ 397	\$ –	\$ 397	\$ –
Production and intermediate-term	–	2,926	–	2,926	–
Rural residential real estate	–	96	–	96	–
Total	\$ –	\$ 3,419	\$ –	\$ 3,419	\$ –

Nine Months Ended September 30, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 270	\$ 8,271	\$ –	\$ 8,541	
Production and intermediate-term	360	7,453	–	7,813	
Processing and marketing	–	–	–	–	
Rural residential real estate	–	81	–	81	
Total	\$ 630	\$ 15,805	\$ –	\$ 16,435	
Post-modification:					
Real estate mortgage	\$ 266	\$ 8,306	\$ –	\$ 8,572	\$ –
Production and intermediate-term	372	7,535	–	7,907	–
Processing and marketing	1	–	–	1	–
Rural residential real estate	–	96	–	96	–
Total	\$ 639	\$ 15,937	\$ –	\$ 16,576	\$ –

Three Months Ended September 30, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ –	\$ 6,925	\$ –	\$ 6,925	
Production and intermediate-term	–	2,089	–	2,089	
Total	\$ –	\$ 9,014	\$ –	\$ 9,014	
Post-modification:					
Real estate mortgage	\$ –	\$ 6,904	\$ –	\$ 6,904	\$ –
Production and intermediate-term	–	2,122	–	2,122	–
Total	\$ –	\$ 9,026	\$ –	\$ 9,026	\$ –

Nine Months Ended September 30, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 8,492	\$ 15,432	\$ –	\$ 23,924	
Production and intermediate-term	362	12,086	–	12,448	
Rural residential real estate	–	118	–	118	
Total	\$ 8,854	\$ 27,636	\$ –	\$ 36,490	
Post-modification:					
Real estate mortgage	\$ 8,461	\$ 15,128	\$ –	\$ 23,589	\$ –
Production and intermediate-term	359	12,117	–	12,476	–
Rural residential real estate	–	121	–	121	–
Total	\$ 8,820	\$ 27,366	\$ –	\$ 36,186	\$ –

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents the outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Defaulted troubled debt restructurings:				
Real estate mortgage	\$ 957	\$ 314	\$ 1,930	\$ 314
Production and intermediate-term	14	153	18	1,957
Total	\$ 971	\$ 467	\$ 1,948	\$ 2,271

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.

	Total TDRs		Nonaccrual TDRs	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Real estate mortgage	\$ 38,297	\$ 38,730	\$ 13,274	\$ 9,888
Production and intermediate-term	10,290	12,484	4,693	5,168
Farm-related business	150	179	9	15
Rural residential real estate	707	711	229	221
Total loans	\$ 49,444	\$ 52,104	\$ 18,205	\$ 15,292
Additional commitments to lend	\$ 131	\$ 318		

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 10.26 percent of the issued stock of the Bank as of September 30, 2021 net of any reciprocal investment. As of that date, the Bank's assets totaled \$37.9

billion and shareholders' equity totaled \$2.7 billion. The Bank's earnings were \$357 million for the first nine months of 2021. In addition, the Association held investments of \$2,680 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Employee Benefit Plans:				
Balance at beginning of period	\$ (487)	\$ (367)	\$ (495)	\$ (372)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	4	2	12	7
Net current period other comprehensive income	4	2	12	7
Balance at end of period	\$ (483)	\$ (365)	\$ (483)	\$ (365)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				Income Statement Line Item
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2021	2020	2021	2020	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (4)	\$ (2)	\$ (12)	\$ (7)	See Note 7.
Net amounts reclassified	\$ (4)	\$ (2)	\$ (12)	\$ (7)	

(a) Amounts in parentheses indicate debits to AOCI.

(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

	September 30, 2021				Total Fair Value
	Total Carrying Amount	Level 1	Level 2	Level 3	
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 3,078	\$ 3,078	\$ —	\$ —	\$ 3,078
Recurring Assets	\$ 3,078	\$ 3,078	\$ —	\$ —	\$ 3,078
Liabilities:					
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 9,437	\$ —	\$ —	\$ 9,437	\$ 9,437
Other property owned	1,646	—	—	1,829	1,829
Nonrecurring Assets	\$ 11,083	\$ —	\$ —	\$ 11,266	\$ 11,266
Other Financial Instruments					
Assets:					
Cash	\$ 5	\$ 5	\$ —	\$ —	\$ 5
Loans	2,950,015	—	—	2,950,917	2,950,917
Other Financial Assets	\$ 2,950,020	\$ 5	\$ —	\$ 2,950,917	\$ 2,950,922
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 2,310,533	\$ —	\$ —	\$ 2,310,758	\$ 2,310,758
Other Financial Liabilities	\$ 2,310,533	\$ —	\$ —	\$ 2,310,758	\$ 2,310,758

December 31, 2020

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 2,826	\$ 2,826	\$ –	\$ –	\$ 2,826
Recurring Assets	\$ 2,826	\$ 2,826	\$ –	\$ –	\$ 2,826
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 11,459	\$ –	\$ –	\$ 11,459	\$ 11,459
Other property owned	1,661	–	–	1,846	1,846
Nonrecurring Assets	\$ 13,120	\$ –	\$ –	\$ 13,305	\$ 13,305
Other Financial Instruments					
Assets:					
Cash	\$ 228	\$ 228	\$ –	\$ –	\$ 228
Loans	2,860,942	–	–	2,890,727	2,890,727
Other Financial Assets	\$ 2,861,170	\$ 228	\$ –	\$ 2,890,727	\$ 2,890,955
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 2,229,163	\$ –	\$ –	\$ 2,255,469	\$ 2,255,469
Other Financial Liabilities	\$ 2,229,163	\$ –	\$ –	\$ 2,255,469	\$ 2,255,469

Uncertainty in Measurements of Fair Value

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in

certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements at September 30, 2021

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 11,266	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

*Ranges for this type of input are not useful because each collateral property is unique.

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 7 — Employee Benefit Plans

The following is a table of retirement and other postretirement benefit expenses for the Association:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Pension	\$ 1,454	\$ 1,147	\$ 4,360	\$ 3,438
401(k)	416	350	1,236	1,031
Other postretirement benefits	166	166	495	498
Total	<u>\$ 2,036</u>	<u>\$ 1,663</u>	<u>\$ 6,091</u>	<u>\$ 4,967</u>

Expenses in the above table are computed using allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2021.

Further details regarding employee benefit plans are contained in the 2020 Annual Report to Shareholders.

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is remote that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2021, which was the date the financial statements were issued.

On October 18, 2021, AgFirst's Board of Directors indicated an intention to declare, in December 2021, a special patronage distribution. The Association will receive between approximately \$27,255 and \$28,391 which will be recorded as patronage refunds from other Farm Credit institutions.