

ALABAMA AG CREDIT, ACA

**2021
Quarterly Report
Third Quarter**



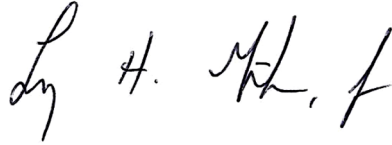
For the Quarter Ended September 30, 2021

REPORT OF MANAGEMENT

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



Douglas Thiessen, President/Chief Executive Officer
November 8, 2021



Larry H. Gibson, Jr., Chairman, Board of Directors
November 8, 2021



M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
November 8, 2021



Richard M. Stabler, CPA, Chairman, Audit Committee
November 8, 2021

ALABAMA AG CREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and nine months ended September 30, 2021. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2020 Annual Report to Stockholders.

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

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

Significant Events

The United States has been operating under a presidentially declared emergency since March 13, 2020 due to the Coronavirus Disease 2019 (also referred to as COVID-19). The potential impact of COVID-19 on the global, U.S. and local economies creates a high degree of economic uncertainty with business disruptions in supply chains in both the non-ag and the ag sectors. The Farm Credit Bank of Texas (Bank) and the Association continue during these unprecedented times to fulfill their mission to support agriculture and rural communities by providing access to reliable and consistent credit. The Bank has been able to maintain access to the financial markets to redeem and replace preferred-stock and callable debt and fund incremental needs. There have been no significant changes to its funding strategies or interest rate risk profile. The credit quality of the Bank's loan portfolio continues to remain strong and capital levels remain strong as well.

As discussed further in the "Liquidity and Funding Sources" and "Relationship with the Farm Credit Bank of Texas" sections of Management's Discussion and Analysis, the Association relies on the Bank as its primary source of funding for its operations, and is therefore impacted by these factors that affect the Bank. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts. The Association will continue to evaluate its allowance for loan losses as changes in outlook occur. Through September 30, 2021 and the date of this report, the Association's loan portfolio has maintained strong credit quality. In addition, capital levels remain strong to address adversity and support continuing loan demand. The Association has taken actions provide relief to many Association borrowers affected by COVID-19. Servicing actions include deferring payments, extending terms, providing additional liquidity, and a temporary moratorium on foreclosures that expired by the end of the second quarter of 2020.

Operationally, the Association continues to function as normal during these challenging times. The Association has witnessed the benefits of past and current technology initiatives which allow Association personnel to work remotely and support both their families and their customer base. The Association's internal controls over financial reporting and disclosure controls and procedures continue to operate effectively and no material changes to the controls or financial systems have occurred or are contemplated.

The Association will closely monitor the potential impact of COVID-19 in the coming quarters as conditions continue to unfold.

Results of Operations

The Association had net income of \$5,077,378 and \$14,909,185 for the three and nine months ended September 30, 2021, as compared to net income of \$4,489,606 and \$13,617,233 for the same period in 2020, reflecting an increase of 13.1 percent and an increase of 9.5 percent, respectively. Net interest income was \$8,125,693 and \$23,355,855 for the three and nine months ended September 30, 2021, compared to \$7,259,419 and \$21,645,754 for the same period in 2020.

	Nine Months Ended			
	September 30, 2021		September 30, 2020	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 1,196,624,306	\$ 39,114,338	\$ 1,104,182,789	\$ 39,922,100
Interest-bearing liabilities	1,006,450,780	15,758,483	924,875,482	18,276,346
Impact of capital	<u>\$ 190,173,526</u>		<u>\$ 179,307,307</u>	
Net interest income		<u>\$ 23,355,855</u>		<u>\$ 21,645,754</u>

	2021	2020
	Average Yield	Average Yield
Yield on loans	4.37%	4.83%
Cost of interest-bearing liabilities	2.09%	2.64%
Interest rate spread	2.28%	2.19%
Impact of capital	0.33%	0.43%
Net interest income as a percentage of average earning assets	2.61%	2.62%

	Nine months ended:		
	September 30, 2021 vs. September 30, 2020		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 3,339,174	\$ (4,146,936)	\$ (807,762)
Interest expense	1,610,522	(4,128,385)	(2,517,863)
Net interest income	<u>\$ 1,728,652</u>	<u>\$ (18,551)</u>	<u>\$ 1,710,101</u>

Loan Portfolio

Interest income for the three months ended September 30, 2021 increased by \$473,332 or 3.7 percent. Over the same period in 2020. The increase in interest income in the third quarter is primarily due to nonaccrual income earned on one large credit in the amount of approximately \$380,000. Interest income for the nine months ended September 30, 2021 decreased by \$807,762 or 2.0 percent over the same period in 2020. The decrease is primarily due to decreases in yields on earning assets partially offset by an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2021, decreased by \$392,942 and \$2,517,863, or 6.9 and 13.8 percent respectively, from the same period of 2020 due to a decrease in the cost of debt partially offset by an increase in average debt volume. Average loan volume for the third quarter of 2021 was \$1,217,837,508, compared to \$1,128,033,404 in the third quarter of 2020.

Noninterest income for the three and nine months ended September 30, 2021, decreased by \$102,511 and \$89,946, or 10.1 and 2.7 percent over the same period of 2020. The primary reason for the decrease is a lower Insurance Fund refund from the Farm Credit System Insurance Corporation (FCSIC) in 2021 compared to refunds received in 2020. Net loan fees were also higher in 2020 compared to 2021. The higher loans fees in 2020 were due to more activity in rate conversions and the associated fees generated in a decreasing interest rate environment. Conversion activity has decreased in 2021.

Noninterest expenses for the three and nine months ended September 30, 2021 increased by \$414,357 and \$818,288 or 11.9 and 7.7 percent, as compared to the same period in 2020. The increase is primarily due to increases in Insurance Fund premiums and in salaries and benefits. The increase in Insurance Fund premiums was caused by a higher premium rate in 2021 compared to 2020 and growth in the Associations insurable debt over the same time frame. The increase in salaries and benefits is primarily due to a larger workforce and normal increase in compensation rates.

The Association's return on average assets for the nine months ended September 30, 2021, was 1.63 percent compared to 1.61 percent for the same period in 2020. The Association's return on average equity for the nine months ended September 30, 2021, was 9.59 percent, compared to 9.19 percent for the same period in 2020.

Loan Portfolio

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive fixed and adjustable interest rates and loan maturities ranging up to 40 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with seasonal cash-flow capabilities of the borrower.

Total loans outstanding at September 30, 2021, stated at recorded investment (principal less funds held), were \$1,227,467,595 compared to \$1,160,464,933 at December 31, 2020, reflecting an increase of 5.8 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.4 percent at September 30, 2021 and 0.7 percent at December 31, 2020. The major commodities within the Association's portfolio are timber, cattle, poultry and field crops.

In July 2017, the United Kingdom's Financial Conduct Authority, the authority regulating the London Inter-Bank Offered Rate (LIBOR) announced that it will stop persuading or compelling banks to submit rates for the calculation of the LIBOR after 2021. On December 18, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on the transition away from LIBOR. The guidance supplements the previous informational memorandum. The informational memorandum summarizes the ICE Benchmark Administration's (IBA) proposal to cease publication of the one-week and two-month U.S. dollar LIBOR tenors by year-end 2021 while continuing to publish the remaining, more heavily used, LIBOR tenors until June 30, 2023. The FCA agreed with a joint statement by the federal banking regulatory agencies that the proposal will allow most legacy LIBOR contracts to mature before LIBOR disruptions occur and stressed the importance of having robust fallback language. The Bank established a LIBOR Workgroup, with cross-functional representation from the finance, operations, credit and legal departments. The LIBOR Workgroup is progressing in implementing its transition plan to an alternative benchmark rate. In late 2020, the Funding Corporation launched an alternative benchmark rate based on SOFR as an alternative to LIBOR. The rate is a monthly-reset variable rate index and is published on the Funding Corporation's website. As of September 30, 2021, the Association had approximately \$3.1 million in loan volume tied to the new index. The Association is actively working to reduce exposure to LIBOR, primarily by converting existing LIBOR loans to other rate products and ensuring all note agreements contain appropriate legal language allowing the change to a different index. At September 30, 2021, the Association's portfolio included LIBOR-indexed volume of \$89,405,902, representing approximately 7.3 percent of the loan portfolio. Of this amount, approximately \$3.2 million is scheduled to mature prior to December 31, 2021.

The Association recorded \$9,427 and \$29,069 in recoveries the three and nine months ended September 30, 2021 compared to \$7,665 and \$27,992 in recoveries for the same periods in 2020. The Association recorded \$0 and \$15,985 in charge-offs for three and nine months ended September 30, 2021 and no charge-offs for the same periods in 2020. The Association's allowance for loan losses was 0.7 percent of total loans outstanding as of September 30, 2021, and December 31, 2020.

The following table reflects the credit quality of the Association's loan volume as of:

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Total loans		
Acceptable	98.5 %	97.6 %
OAEM	0.6	1.3
Substandard/doubtful	0.9	1.1
	<u>100.0 %</u>	<u>100.0 %</u>

Risk Exposure

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

	<u>September 30, 2021</u>		<u>December 31, 2020</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 5,282,658	63.1%	\$ 7,775,295	96.3%
90 days past due and still accruing interest	19,763	0.2%	-	0.0%
Formally restructured	3,075,634	36.7%	203,799	2.5%
Other property owned, net	-	0.0%	100,000	1.2%
Total	<u>\$ 8,378,055</u>	<u>100.0%</u>	<u>\$ 8,079,094</u>	<u>100.0%</u>

Liquidity and Funding Sources

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of System-wide obligations. The following schedule summarizes the Association's borrowings.

	September 30, 2021	December 31, 2020
Note payable to the Bank	\$ 1,033,666,908	\$ 968,268,302
Accrued interest on note payable	1,740,640	1,804,407
Total	<u>\$ 1,035,407,548</u>	<u>\$ 970,072,709</u>

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$1,033,666,908 as of September 30, 2021, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.00 percent at September 30, 2021. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank since December 31, 2020, is due to increased funding needs generated by growth in the Association's loan portfolio. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$194,544,175 at September 30, 2021. The maximum amount the Association may borrow from the Bank as of September 30, 2021, was \$1,175,000,000 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources

The Association's capital position increased by \$15,070,874 at September 30, 2021, compared to December 31, 2020. The Association's debt as a ratio of members' equity was 4.85:1 as of September 30, 2021, compared to 4.95:1 as of December 31, 2020.

FCA regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2021, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

Information regarding significant recent accounting pronouncements, required to be disclosed, is incorporated herein by reference to Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report.

Relationship With the Farm Credit Bank of Texas

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2020 Annual Report of Alabama Ag Credit, ACA more fully describe the Association's relationship with the Bank.

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

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. The quarterly reports will be available on the Association's website at www.AlabamaAgCredit.com approximately 40 days after quarter end and can also be obtained by writing to Alabama Ag Credit, ACA, 2660 EastChase Lane, Suite 401, Montgomery, Alabama, 36117 or calling (334) 270-8687. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing Info@AlabamaAgCredit.com. The Association's annual stockholder report is available on its website 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

ALABAMA AG CREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	September 30, 2021 (unaudited)	December 31, 2020
<u>ASSETS</u>		
Cash	\$ 15,788	\$ 10,343
Loans	1,227,467,595	1,160,464,933
Less: allowance for loan losses	<u>8,321,895</u>	<u>8,140,866</u>
Net loans	1,219,145,700	1,152,324,067
Accrued interest receivable	10,378,837	9,660,163
Investment in and receivable from the Bank		
Capital stock	18,541,250	18,541,250
Accrued patronage receivable	2,070,000	406,617
Other	878,908	1,553,862
Other property owned, net	-	100,000
Premises and equipment, net	6,259,799	6,264,322
Other assets	<u>935,224</u>	<u>831,976</u>
Total assets	<u><u>\$ 1,258,225,506</u></u>	<u><u>\$ 1,189,692,600</u></u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 1,033,666,908	\$ 968,268,302
Accrued interest payable	1,740,640	1,804,407
Drafts outstanding	150,924	203,007
Patronage distributions payable	1,569	11,201,454
Other liabilities	<u>7,578,434</u>	<u>8,199,273</u>
Total liabilities	<u><u>1,043,138,475</u></u>	<u><u>989,676,443</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	4,434,170	4,289,225
Unallocated retained earnings	211,290,282	196,386,088
Accumulated other comprehensive loss	<u>(637,421)</u>	<u>(659,156)</u>
Total members' equity	<u>215,087,031</u>	<u>200,016,157</u>
Total liabilities and members' equity	<u><u>\$ 1,258,225,506</u></u>	<u><u>\$ 1,189,692,600</u></u>

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<u>INTEREST INCOME</u>				
Loans	\$ 13,457,706	\$ 12,984,374	\$ 39,114,338	\$ 39,922,100
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	5,332,013	5,724,955	15,758,483	18,276,346
Net interest income	8,125,693	7,259,419	23,355,855	21,645,754
<u>PROVISION FOR LOAN LOSSES</u>				
Provision for loan losses	74,371	312,737	152,980	643,065
Net interest income after provision for loan losses	8,051,322	6,946,682	23,202,875	21,002,689
<u>NONINTEREST INCOME</u>				
Income from the Bank	782,440	666,219	2,351,730	2,049,222
Loan fees	131,821	289,539	672,490	850,615
Gain (loss) on other property owned, net	1,520	19,237	52,020	13,346
Gain (loss) on sale of premises and equipment, net	521	43,184	54,946	56,341
Other noninterest income	479	1,113	72,373	323,981
Total noninterest income	916,781	1,019,292	3,203,559	3,293,505
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	2,412,356	2,251,129	7,029,866	6,812,334
Directors' expense	85,416	63,772	253,955	249,165
Purchased services	113,804	164,721	350,114	463,634
Travel	185,772	126,894	502,404	407,640
Occupancy and equipment	209,671	192,823	639,278	639,395
Communications	95,128	81,710	275,920	253,499
Advertising	78,638	72,405	242,554	280,083
Public and member relations	112,575	99,665	274,324	277,832
Supervisory and exam expense	104,534	101,004	287,917	275,683
Insurance Fund premiums	382,298	242,211	1,321,322	757,412
Other components of net periodic postretirement benefit cost	30,689	25,527	92,067	76,581
Other noninterest expense	79,844	54,507	227,528	185,703
Total noninterest expenses	3,890,725	3,476,368	11,497,249	10,678,961
NET INCOME	5,077,378	4,489,606	14,909,185	13,617,233
Other comprehensive income:				
Change in postretirement benefit plans	7,245	48	21,735	144
COMPREHENSIVE INCOME	\$ 5,084,623	\$ 4,489,654	\$ 14,930,920	\$ 13,617,377

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2019	\$ 4,196,475	\$ 187,094,401	\$ (375,423)	\$ 190,915,453
Net income	-	13,617,233	-	13,617,233
Other comprehensive income	-	-	144	144
Capital stock/participation certificates issued	620,850	-	-	620,850
Capital stock/participation certificates retired	(553,250)	-	-	(553,250)
Patronage refunds:				
Change in patronage declared and paid	-	(28,946)	-	(28,946)
Balance at September 30, 2020	<u>\$ 4,264,075</u>	<u>\$ 200,682,688</u>	<u>\$ (375,279)</u>	<u>\$ 204,571,484</u>
Balance at December 31, 2020	\$ 4,289,225	\$ 196,386,088	\$ (659,156)	\$ 200,016,157
Net income	-	14,909,185	-	14,909,185
Other comprehensive income	-	-	21,735	21,735
Capital stock/participation certificates issued	793,850	-	-	793,850
Capital stock/participation certificates retired	(648,905)	-	-	(648,905)
Patronage refunds:				
Change in patronage declared and paid	-	(4,991)	-	(4,991)
Balance at September 30, 2021	<u>\$ 4,434,170</u>	<u>\$ 211,290,282</u>	<u>\$ (637,421)</u>	<u>\$ 215,087,031</u>

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

ALABAMA AG CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington and Wilcox in the state of Alabama. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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

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

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

In March 2020, the FASB issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association adopted the practical expedients option as it relates to loans in the first quarter of 2021. The impact of adoption was not material to the Association's financial condition or the results of operations.

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

December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association’s financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter and nine months ended September 30, 2021, are not necessarily indicative of the results to be expected for the year ended December 31, 2021. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows:

Loan Type	September 30, 2021	December 31, 2020
Production agriculture:		
Real estate mortgage	\$ 1,003,064,548	\$ 938,239,785
Production and intermediate term	110,558,558	124,885,845
Agribusiness:		
Loans to cooperatives	6,995,434	6,423,734
Processing and marketing	31,343,303	31,386,952
Farm-related business	18,064,001	10,726,553
Communication	-	2,607,511
Energy and water/waste water	5,708,607	3,111,657
Rural residential real estate	50,156,215	43,082,896
International	1,576,929	-
Total	<u>\$ 1,227,467,595</u>	<u>\$ 1,160,464,933</u>

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. All participations are with other farm credit institutions. The following table presents information regarding the balances of participations purchased and sold at September 30, 2021:

	Total	
	Participations Purchased	Participations Sold
Real estate mortgage	\$ 8,800,506	\$ 47,001,558
Production and intermediate term	11,212,266	325,000
Agribusiness	43,242,790	11,605,799
Energy	4,352,958	-
Water and waste water	1,355,649	-
International	1,576,929	-
Total	<u>\$ 70,541,098</u>	<u>\$ 58,932,357</u>

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted ACPs are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were \$24,984,681 and \$14,844,722 at September 30, 2021, and December 31, 2020, respectively.

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

	September 30, 2021	December 31, 2020
Nonaccrual loans:		
Real estate mortgage	\$ 4,171,439	\$ 6,315,042
Production and intermediate term	<u>1,111,219</u>	<u>1,460,253</u>
Total nonaccrual loans	<u>5,282,658</u>	<u>7,775,295</u>
Accruing restructured loans:		
Real estate mortgage	1,775,740	203,799
Production and intermediate term	<u>1,299,894</u>	<u>-</u>
Total accruing restructured loans	<u>3,075,634</u>	<u>203,799</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	<u>19,763</u>	<u>-</u>
Total accruing loans 90 days or more past due	<u>19,763</u>	<u>-</u>
Total nonperforming loans	8,378,055	7,979,094
Other property owned	-	100,000
Total nonperforming assets	<u>\$ 8,378,055</u>	<u>\$ 8,079,094</u>

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

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

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

	September 30, 2021	December 31, 2020
Real estate mortgage		
Acceptable	98.6 %	97.9 %
OAEM	0.6	0.9
Substandard/doubtful	0.8	1.2
	100.0	100.0
Production and intermediate term		
Acceptable	96.7	93.5
OAEM	1.2	5.3
Substandard/doubtful	2.1	1.2
	100.0	100.0
Agribusiness		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Energy and water/waste water		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Communication		
Acceptable	-	100.0
OAEM	-	-
Substandard/doubtful	-	-
	-	100.0
Rural residential real estate		
Acceptable	99.9	99.8
OAEM	0.1	0.1
Substandard/doubtful	-	0.1
	100.0	100.0
International		
Acceptable	100.0	-
OAEM	-	-
Substandard/doubtful	-	-
	100.0	-
Total loans		
Acceptable	98.5	97.6
OAEM	0.6	1.3
Substandard/doubtful	0.9	1.1
	100.0 %	100.0 %

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

September 30, 2021	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 4,638,487	\$ 214,260	\$ 4,852,747	\$ 1,006,973,003	\$ 1,011,825,750	\$ 19,763
Production and intermediate term	-	432,736	432,736	111,413,068	111,845,804	-
Loans to cooperatives	-	-	-	7,060,495	7,060,495	-
Processing and marketing	-	-	-	31,423,543	31,423,543	-
Farm-related business	-	-	-	18,090,001	18,090,001	-
Energy and water/waste water	-	-	-	5,710,805	5,710,805	-
Rural residential real estate	88,433	-	88,433	50,223,247	50,311,680	-
International	-	-	-	1,578,354	1,578,354	-
Total	\$ 4,726,920	\$ 646,996	\$ 5,373,916	\$ 1,232,472,516	\$ 1,237,846,432	\$ 19,763

December 31, 2020	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 2,499,143	\$ 2,102,912	\$ 4,602,055	\$ 941,700,770	\$ 946,302,825	\$ -
Production and intermediate term	9,538	718,690	728,228	125,494,605	126,222,833	-
Loans to cooperatives	-	-	-	6,450,703	6,450,703	-
Processing and marketing	-	-	-	31,474,587	31,474,587	-
Farm-related business	-	-	-	10,740,077	10,740,077	-
Communication	-	-	-	2,607,648	2,607,648	-
Energy and water/waste water	-	-	-	3,114,192	3,114,192	-
Rural residential real estate	25,995	-	25,995	43,186,236	43,212,231	-
Total	\$ 2,534,676	\$ 2,821,602	\$ 5,356,278	\$ 1,164,768,818	\$ 1,170,125,096	\$ -

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

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

As of September 30, 2021, the total recorded investment of TDRs was \$6,590,625, including \$3,714,560 classified as nonaccrual and \$2,876,065 classified as accrual, with specific allowance for loan losses of \$1,211,440. All loans classified as TDRs were individually evaluated to determine the need for allowance for loan losses. As of September 30, 2021, the Association had no commitments to lend funds to borrowers whose loan terms have been modified in a TDR.

The following tables present additional information regarding TDRs, which includes both accrual and nonaccrual loans with TDR designation, that occurred during the three and nine months ended September 30, 2021 and 2020. There were no new loans classified as TDRs during the three month ended September 30, 2021. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

For the Three Months Ended September 30, 2020	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 1,441,468	\$ 1,367,779
Total	\$ 1,441,468	\$ 1,367,779
For the Nine Months Ended September 30, 2021	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 3,428,601	\$ 3,387,567
Production and intermediate term	1,785,400	1,871,326
Total	\$ 5,214,001	\$ 5,258,893
For the Nine Months Ended September 30, 2020	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 1,441,468	\$ 1,367,779
Total	\$ 1,441,468	\$ 1,367,779

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The predominant form of concession granted for TDRs includes extension of the term and/or delayed payments. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a TDR. No loans modified in the last 12 months have subsequently defaulted as of September 30, 2021.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Real estate mortgage	\$ 4,811,816	\$ 3,055,470	\$ 3,036,077	\$ 1,305,371
Production and intermediate term	1,778,809	129,983	678,483	128,511
Total	\$ 6,590,625	\$ 3,185,453	\$ 3,714,560	\$ 1,433,882

Additional impaired loan information is as follows:

	September 30, 2021			December 31, 2020		
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 4,599,891	\$ 4,589,026	\$ 1,126,858	\$ 2,703,110	\$ 2,775,365	\$ 610,686
Production and intermediate term	655,348	655,348	328,926	350,371	350,371	186,940
Farm-related business	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-
Total	\$ 5,255,239	\$ 5,244,374	\$ 1,455,784	\$ 3,053,481	\$ 3,125,736	\$ 797,626
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 1,367,050	\$ 1,498,034	\$ -	\$ 3,815,730	\$ 3,970,446	\$ -
Production and intermediate term	1,755,764	1,847,124	-	1,109,883	1,198,265	-
Farm-related business	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-
Total	\$ 3,122,814	\$ 3,345,158	\$ -	\$ 4,925,613	\$ 5,168,711	\$ -
Total impaired loans:						
Real estate mortgage	\$ 5,966,941	\$ 6,087,060	\$ 1,126,858	\$ 6,518,840	\$ 6,745,811	\$ 610,686
Production and intermediate term	2,411,112	2,502,472	328,926	1,460,254	1,548,636	186,940
Farm-related business	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-
Total	\$ 8,378,053	\$ 8,589,532	\$ 1,455,784	\$ 7,979,094	\$ 8,294,447	\$ 797,626

^a Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2021		September 30, 2020		September 30, 2021		September 30, 2020	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	\$ 4,597,286	\$ 18,925	\$ 4,631,154	\$ -	\$ 4,374,134	\$ 65,218	\$ 4,456,799	\$ 6,967
Production and intermediate term	658,495	-	681,573	962	658,514	76	465,084	8,932
Farm-related business	-	-	-	-	-	-	-	-
Rural residential real estate	-	-	32,613	-	-	-	34,490	-
Total	\$ 5,255,781	\$ 18,925	\$ 5,345,340	\$ 962	\$ 5,032,648	\$ 65,294	\$ 4,956,373	\$ 15,899
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	\$ 1,376,586	\$ 2,871	\$ 3,064,470	\$ 1,473	\$ 3,055,547	\$ 13,189	\$ 3,654,913	\$ 22,939
Production and intermediate term	1,743,445	13,288	1,670,704	3,983	1,459,243	24,275	1,171,948	7,193
Farm-related business	-	-	-	-	-	-	3,329	-
Rural residential real estate	-	-	-	-	-	-	105,746	2,011
Total	\$ 3,120,031	\$ 16,159	\$ 4,735,174	\$ 5,456	\$ 4,514,790	\$ 37,464	\$ 4,935,936	\$ 32,143
Total impaired loans:								
Real estate mortgage	\$ 5,973,872	\$ 21,796	\$ 7,695,624	\$ 1,473	\$ 7,429,681	\$ 78,407	\$ 8,111,712	\$ 29,906
Production and intermediate term	2,401,940	13,288	2,352,277	4,945	2,117,757	24,351	1,637,032	16,125
Farm-related business	-	-	-	-	-	-	3,329	-
Rural residential real estate	-	-	32,613	-	-	-	140,236	2,011
Total	\$ 8,375,812	\$ 35,084	\$ 10,080,514	\$ 6,418	\$ 9,547,438	\$ 102,758	\$ 9,892,309	\$ 48,042

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	International	Total
Allowance for Credit Losses:								
Balance at June 30, 2021	\$ 7,493,922	\$ 571,220	\$ 104,763	\$ 1,104	\$ 9,125	\$ 74,463	\$ 1,256	\$ 8,255,853
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	9,427	-	-	-	-	-	-	9,427
Provision for loan losses	(114,083)	185,910	2,293	(1,104)	(3,126)	3,676	805	74,371
Other	-	(11,312)	(6,746)	-	1,065	43	(806)	(17,756)
Balance at September 30, 2021	\$ 7,389,266	\$ 745,818	\$ 100,310	\$ -	\$ 7,064	\$ 78,182	\$ 1,255	\$ 8,321,895
Balance at December 31, 2020	\$ 7,116,942	\$ 755,490	\$ 188,161	\$ 2,090	\$ 6,668	\$ 71,515	\$ -	\$ 8,140,866
Charge-offs	(15,448)	(537)	-	-	-	-	-	(15,985)
Recoveries	27,623	1,446	-	-	-	-	-	29,069
Provision for loan losses	260,149	(5,685)	(109,103)	(2,090)	1,618	6,030	2,061	152,980
Other	-	(4,896)	21,252	-	(1,222)	637	(806)	14,965
Balance at September 30, 2021	\$ 7,389,266	\$ 745,818	\$ 100,310	\$ -	\$ 7,064	\$ 78,182	\$ 1,255	\$ 8,321,895
Ending Balance:								
Individually evaluated for impairment	\$ 1,289,020	\$ 541,872	\$ -	\$ -	\$ -	\$ 6,421	\$ -	\$ 1,837,313
Collectively evaluated for impairment	6,100,246	203,946	100,310	-	7,064	71,761	1,255	6,484,582
Balance at September 30, 2021	\$ 7,389,266	\$ 745,818	\$ 100,310	\$ -	\$ 7,064	\$ 78,182	\$ 1,255	\$ 8,321,895
Balance at June 30, 2020	\$ 7,165,652	\$ 734,276	\$ 113,495	\$ 2,101	\$ 7,016	\$ 94,078	\$ -	\$ 8,116,618
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	7,665	-	-	-	-	-	-	7,665
Provision for loan losses	160,644	98,334	81,076	(5)	(39)	(27,273)	-	312,737
Other	-	(4,723)	(16,660)	-	-	264	-	(21,119)
Balance at September 30, 2020	\$ 7,333,961	\$ 827,887	\$ 177,911	\$ 2,096	\$ 6,977	\$ 67,069	\$ -	\$ 8,415,901
Balance at December 31, 2019	\$ 7,175,026	\$ 378,935	\$ 101,231	\$ 2,159	\$ 2,389	\$ 98,455	\$ -	\$ 7,758,195
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	27,992	-	-	-	-	-	-	27,992
Provision for loan losses	130,886	445,031	96,379	(63)	2,811	(31,979)	-	643,065
Other	57	3,921	(19,699)	-	1,777	593	-	(13,351)
Balance at September 30, 2020	\$ 7,333,961	\$ 827,887	\$ 177,911	\$ 2,096	\$ 6,977	\$ 67,069	\$ -	\$ 8,415,901
Ending Balance:								
Individually evaluated for impairment	\$ 1,211,936	\$ 564,631	\$ -	\$ -	\$ -	\$ 12,120	\$ -	\$ 1,788,687
Collectively evaluated for impairment	6,122,025	263,256	177,911	2,096	6,977	54,949	-	6,627,214
Balance at September 30, 2020	\$ 7,333,961	\$ 827,887	\$ 177,911	\$ 2,096	\$ 6,977	\$ 67,069	\$ -	\$ 8,415,901

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	International	Total
Recorded Investments								
in Loans Outstanding:								
Ending Balance at								
September 30, 2021	\$ 1,011,825,750	\$ 111,845,804	\$ 56,574,039	\$ -	\$ 5,710,805	\$50,311,680	\$ 1,578,354	\$1,237,846,432
Individually evaluated for impairment	\$ 8,178,195	\$ 2,390,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,568,650
Collectively evaluated for impairment	\$1,003,647,555	\$ 109,455,349	\$ 56,574,039	\$ -	\$ 5,710,805	\$50,311,680	\$ 1,578,354	\$1,227,277,782
Ending Balance at								
December 31, 2020	\$ 946,302,825	\$ 126,222,833	\$ 48,665,367	\$ 2,607,648	\$ 3,114,192	\$43,212,231	\$ -	\$1,170,125,096
Individually evaluated for impairment	\$ 11,001,810	\$ 1,569,536	\$ -	\$ -	\$ -	\$ 56,956	\$ -	\$ 12,628,302
Collectively evaluated for impairment	\$ 935,301,015	\$ 124,653,297	\$ 48,665,367	\$ 2,607,648	\$ 3,114,192	\$43,155,275	\$ -	\$1,157,496,794

NOTE 3 — CAPITAL

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

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of September 30, 2021
Common equity tier 1 ratio	7.00%	15.47%
Tier 1 capital ratio	8.50%	15.47%
Total capital ratio	10.50%	16.14%
Permanent capital ratio	7.00%	15.57%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	15.75%
UREE leverage ratio	1.50%	16.90%

The following tables show details from the amounts used in the calculation of the regulatory capital ratios as of September 30, 2021:

Risk-adjusted Capital Ratios

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	207,326,401	207,326,401	207,326,401	207,326,401
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,418,687	4,418,687	4,418,687	4,418,687
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	8,353,417	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(18,541,250)	(18,541,250)	(18,541,250)	(18,541,250)
	193,203,838	193,203,838	201,557,255	193,203,838
Denominator:				
Risk-adjusted assets excluding allowance	1,267,534,030	1,267,534,030	1,267,534,030	1,267,534,030
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(18,541,250)	(18,541,250)	(18,541,250)	(18,541,250)
Allowance for loan losses	-	-	-	(8,261,609)
	1,248,992,780	1,248,992,780	1,248,992,780	1,240,731,171

Non-risk-adjusted Capital Ratios

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	207,326,401	207,326,401
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,418,687	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(18,541,250)	-
	<u>193,203,838</u>	<u>207,326,401</u>
Denominator:		
Total Assets	1,251,989,064	1,251,989,064
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(24,974,705)	(24,974,705)
	<u>1,227,014,359</u>	<u>1,227,014,359</u>

An additional component of equity is accumulated other comprehensive income. The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Other components of net periodic postretirement benefit cost" in the Consolidated Statement of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2021	2020
Accumulated other comprehensive income (loss) at January 1	\$ (659,156)	\$ (375,423)
Amortization of prior service (credit) costs included		
in other components of net periodic postretirement benefit cost	21,735	144
Other comprehensive income (loss), net of tax	21,735	144
Accumulated other comprehensive income (loss) at	<u>\$ (637,421)</u>	<u>\$ (375,279)</u>

NOTE 4 — INCOME TAXES

Alabama Ag Credit, ACA and its PCA subsidiary, Alabama Ag Credit, PCA (Associations) are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. The Association has recorded a full valuation allowance against its deferred tax asset as of September 30, 2021 based on management's estimate that it is more likely than not that the deferred tax asset will not be realized. For the three and nine months ended September 30, 2021 and 2020, the Association had no taxable income. The subsidiary, Alabama Ag Credit, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 5 — FAIR VALUE MEASUREMENTS

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 to the 2020 Annual Report to Stockholders for a more complete description.

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

<u>September 30, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 168,598	\$ -	\$ -	\$ 168,598
<u>December 31, 2020</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 129,473	\$ -	\$ -	\$ 129,473

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

<u>September 30, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 7,599,395	\$ 7,599,395
Other property owned	-	-	-	-
<u>December 31, 2020</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 6,380,885	\$ 6,380,885
Other property owned	-	-	112,500	112,500

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

Information About Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 13 to the 2020 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association’s assets and liabilities.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans Evaluated for Impairment

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

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy. As of September 30, 2021, the Association has no other property owned in the consolidated balance sheet.

NOTE 6 — EMPLOYEE BENEFIT PLANS

Employee Retirement Plans: As discussed in Note 2 and Note 11 to the 2020 Annual Report to Stockholders, employees of the Association participate in either the Texas Farm Credit District's (District) defined benefit pension plan (DB Plan) or the District's defined contribution plan (DC Plan).

The structure of the DB Plan is characterized as multi-employer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The annual contribution is paid in January of each year and amortized into expense on a monthly basis; unamortized contributions are included in "Other Assets" in the consolidated balance sheet. The following table represents DB contributions made, amounts amortized into expense, and the remaining unamortized contributions amounts as of September 30:

	<u>2021</u>	<u>2020</u>
DB contribution	\$ 705,350	\$ 320,565
YTD amortization	529,013	240,424
Unamortized contributions	<u>\$ 176,337</u>	<u>\$ 80,141</u>

Association contributions to the DC Plan are expensed as incurred. For the nine months ended September 30, 2021 and 2020, the Association recognized pension costs for the DC Plan of \$285,931 and \$266,900, respectively.

Employees are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Contributions to the 401(k) plan are expensed as incurred. The Association's contributions to the 401(k) plan were \$184,614 and \$186,403 for the nine months ended September 30, 2021 and 2020, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer, and consequently, the liability for these benefits is included in the consolidated balance sheet. The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three and nine months ended September 30, 2021:

Three months ended September 30:

	<u>Other Benefits</u>	
	<u>2021</u>	<u>2020</u>
Service cost	\$ 17,756	\$ 15,458
Interest cost	23,444	25,479
Expected return on plan assets	-	-
Amortization of prior service (credits) costs	(5,056)	(5,056)
Amortization of net actuarial (gain) loss	12,301	5,104
Total non-service cost	<u>30,689</u>	<u>25,527</u>
Net periodic benefit cost	<u>\$ 48,445</u>	<u>\$ 40,985</u>

Nine months ended September 30:

	<u>Other Benefits</u>	
	<u>2021</u>	<u>2020</u>
Service cost	\$ 53,268	\$ 46,374
Interest cost	70,332	76,437
Expected return on plan assets	-	-
Amortization of prior service (credits) costs	(15,168)	(15,168)
Amortization of net actuarial (gain) loss	36,903	15,312
Total non-service cost	<u>92,067</u>	<u>76,581</u>
Net periodic benefit cost	<u>\$ 145,335</u>	<u>\$ 122,955</u>

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

The Association’s liability for the unfunded accumulated obligation for these benefits at September 30, 2021, was \$3,471,122 and is included in “Other Liabilities” in the balance sheet.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES

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

NOTE 8 — SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 8, 2021 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 8, 2021.