

# **TEXAS FARM CREDIT SERVICES**

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## **2021 Quarterly Report First Quarter**



**For the Quarter Ended March 31, 2021**

## REPORT OF MANAGEMENT

The consolidated financial statements of Texas Farm Credit Services (Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements and there are no significant changes in the Association's internal controls or in other factors that could significantly affect such controls during the year.

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.

/s/ Mark Miller

Mark Miller, Chief Executive Officer  
*May 6, 2021*

/s/ Gregory T. Richbourg

Gregory T. Richbourg, Audit Committee Chairman  
*May 6, 2021*

/s/ Keith A. Ibrom

Keith A. Ibrom, Chief Financial Officer  
*May 6, 2021*

## TEXAS FARM CREDIT SERVICES MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

### Significant Events

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 Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Loan volume increased as borrowers increased their liquidity and cash positions. The Association was able to maintain access to borrowings, fund incremental needs and increase liquidity without significant changes to its funding strategies or interest rate risk profiles. Through March 31, 2021 and the date of this report, there have been no observable delinquencies or credit metrics impacting the credit quality of the Association's loan portfolio related to COVID-19. 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, such as oil and gas, food processing, timber and beef cattle. The Association has adjusted its portfolio monitoring and servicing practices and, if appropriate, will evaluate its allowance for loan losses as changes in outlook occur. Capital levels remained strong to support any adversity or continuing loan demand.

During 2020, the Association implemented a payment deferral program to provide relief to Association borrowers affected by COVID-19. Each borrower is evaluated on an individual basis with payments being deferred for up to 90 days. The Association will continue to monitor the impact of COVID-19 on Association borrowers.

### Loan Portfolio

Total loans outstanding at March 31, 2021, including nonaccrual loans and sales contracts, were \$1,654,184,259 compared to \$1,563,259,965 at December 31, 2020, reflecting an increase of 5.8 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.5 percent at March 31, 2021, compared to 0.4 percent at December 31, 2020.

The Association recorded \$182,512 in recoveries and \$0 in charge-offs for the quarter ended March 31, 2021, and \$28,233 in recoveries and \$0 in charge-offs for the same period in 2020. The Association's allowance for loan losses was 0.3 percent and 0.4 percent of total loans outstanding as of March 31, 2021, and December 31, 2020, respectively.

In the first quarter of 2021, the Association transferred a loan to the held for sale classification. As of March 31, 2021, the fair value of the loan held for sale was \$2,440,335. Loans held for sale are included within other assets on the balance sheet.

### 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.

	<b>March 31, 2021</b>		<b>December 31, 2020</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Nonaccrual	\$ 7,521,019	90.4%	\$ 6,643,286	89.4%
90 days past due and still accruing interest	4,596	0.1%	4,549	0.1%
Formally restructured	793,817	9.5%	782,380	10.5%
Other property owned, net	-	0.0%	-	0.0%
Total	<b>\$ 8,319,432</b>	<b>100.0%</b>	<b>\$ 7,430,215</b>	<b>100.0%</b>

The majority of high-risk assets related to a small number of larger credits within different commodity concentrations.

## Results of Operations

The Association had net income of \$9,691,115 for the three months ended March 31, 2021, as compared to net income of \$7,371,061 for the same period in 2020, reflecting an increase of 31.5 percent. Net interest income was \$11,192,602 for the three months ended March 31, 2021, compared to \$9,507,232 for the same period in 2020.

	<b>Three Months Ended</b>			
	<b>March 31, 2021</b>		<b>March 31, 2020</b>	
	<b>Average Balance</b>	<b>Interest</b>	<b>Average Balance</b>	<b>Interest</b>
Loans	\$ 1,598,907,656	\$ 17,867,951	\$ 1,328,354,511	\$ 17,843,975
Investments	963,006	13,594	2,574,118	37,314
Total interest-earning assets	1,599,870,662	17,881,545	1,330,928,629	17,881,289
Interest-bearing liabilities	1,401,691,542	6,688,943	1,155,216,764	8,374,057
Impact of capital	<u>\$ 198,179,120</u>		<u>\$ 175,711,865</u>	
Net interest income		<u><u>\$ 11,192,602</u></u>		<u><u>\$ 9,507,232</u></u>

	<b>2021</b>	<b>2020</b>
	<b>Average Yield</b>	<b>Average Yield</b>
Yield on loans	4.53%	5.40%
Yield on investments	5.72%	5.83%
Total yield on interest-earning assets	4.53%	5.41%
Cost of interest-bearing liabilities	1.94%	2.92%
Interest rate spread	2.59%	2.49%
Net interest income as a percentage of average earning assets	2.84%	2.87%

	<b>Three months ended:</b>		
	<b>March 31, 2021 vs. March 31, 2020</b>		
	<b>Increase (decrease) due to</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
Interest income - loans	\$ 3,604,302	\$ (3,580,326)	\$ 23,976
Interest income - investments	(23,161)	(559)	(23,720)
Total interest income	3,581,141	(3,580,885)	256
Interest expense	1,771,884	(3,456,998)	(1,685,114)
Net interest income	<u>\$ 1,809,257</u>	<u>\$ (123,887)</u>	<u>\$ 1,685,370</u>

Interest income for the three ended March 31, 2021, increased by \$256, or 0.0 percent, from the same period of 2020, primarily due to declines in yields on earning assets offset by an increase in average loan volume. Interest expense for the three months ended March 31, 2021, decreased by \$1,685,114, or 20.1 percent, from the same period of 2020 due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the first quarter of 2021 was \$1,599,870,662, compared to \$1,330,928,629 in the first quarter of 2020. The average net interest rate spread on the loan portfolio for the first quarter of 2021 was 2.59 percent, compared to 2.49 percent in the first quarter of 2020.

The Association's return on average assets for the three months ended March 31, 2021, was 2.38 percent compared to 2.13 percent for the same period in 2020. The Association's return on average equity for the three months ended March 31, 2021, was 17.61 percent, compared to 14.18 percent for the same period in 2020.

Noninterest income for the three months ended March 31, 2021, increased by \$22,193, or 0.4 percent, compared to the same period of 2020, primarily due to increases in patronage income and loan fees offset by a decrease in financially related services income. Noninterest expense for the three months ended March 31, 2021, increased by \$557,997, or 8.69 percent, compared to the same period of 2020, primarily due to an increase in insurance fund premiums and software expenses.

## Liquidity and Funding Sources

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

	<b>March 31, 2021</b>	December 31, 2020
Note payable to the Bank	\$ 1,459,234,967	\$ 1,364,703,280
Accrued interest on note payable	2,332,614	2,237,465
Total	<u>\$ 1,461,567,581</u>	<u>\$ 1,366,940,745</u>

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$1,459,234,967 as of March 31, 2021, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.94 percent at March 31, 2021. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2020, is due to the Association's increase in debt related to its match funding of new loans. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$196,722,562 at March 31, 2021. The maximum amount the Association may borrow from the Bank as of March 31, 2021, was \$1,657,262,615 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2021, 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.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued in 2021. As borrower payments are received, they are applied to the Association's note payable to the Bank.

## Capital Resources

The Association's capital position increased by \$9,869,299 at March 31, 2021, compared to December 31, 2020. The Association's debt as a percentage of members' equity was 6.51:1 as of March 31, 2021, compared to 6.38:1 as of December 31, 2020.

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

## Significant Recent Accounting Pronouncements

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

## Relationship With the Farm Credit Bank of Texas

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

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

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Texas Farm Credit Services, 545 S. Hwy 77, Robstown, Texas, 78380 or calling (361) 387-8563. The annual and quarterly stockholder reports for the Association are also available on its website at [www.texasfcs.com](http://www.texasfcs.com). Copies of the Association's quarterly stockholder reports can also be requested by e-mailing [kibrom@texasfcs.com](mailto:kibrom@texasfcs.com).

**TEXAS FARM CREDIT SERVICES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>March 31, 2021 (unaudited)</b>	<b>December 31, 2020</b>
<b><u>ASSETS</u></b>		
Cash	\$ 3,127,687	\$ 2,373,598
Investments	906,414	1,054,100
Loans	1,654,184,259	1,563,259,965
Less: allowance for loan losses	5,704,716	5,999,691
Net loans	<u>1,648,479,543</u>	<u>1,557,260,274</u>
Accrued interest receivable	11,933,845	10,371,113
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	24,736,075	24,760,550
Other	3,151,254	719,400
Deferred taxes, net	600,714	711,938
Premises and equipment, net	14,868,575	14,367,270
Other assets	7,748,049	3,026,151
Total assets	<u><u>\$ 1,715,552,156</u></u>	<u><u>\$ 1,614,644,394</u></u>
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 1,459,234,967	\$ 1,364,703,280
Advance conditional payments	487,835	490,138
Accrued interest payable	2,332,614	2,237,465
Drafts outstanding	127,062	77,855
Patronage distributions payable	14,851,050	14,851,050
Other liabilities	9,994,429	13,629,706
Total liabilities	<u><u>1,487,027,957</u></u>	<u><u>1,395,989,494</u></u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	4,352,245	4,174,745
Additional paid-in capital	47,596,495	47,596,495
Allocated retained earnings	57,255,152	57,255,152
Unallocated retained earnings	119,900,412	110,209,297
Accumulated other comprehensive loss	(580,105)	(580,789)
Total members' equity	<u>228,524,199</u>	<u>218,654,900</u>
Total liabilities and members' equity	<u><u>\$ 1,715,552,156</u></u>	<u><u>\$ 1,614,644,394</u></u>

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

**TEXAS FARM CREDIT SERVICES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited)

	<b>Quarter Ended</b>	
	<b>March 31,</b>	
	<u>2021</u>	<u>2020</u>
<b><u>INTEREST INCOME</u></b>		
Loans	\$ 17,867,951	\$ 17,843,975
Investments	13,594	37,314
Total interest income	<u>17,881,545</u>	<u>17,881,289</u>
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the Farm Credit Bank of Texas	6,688,914	8,372,960
Advance conditional payments	29	1,097
Total interest expense	<u>6,688,943</u>	<u>8,374,057</u>
Net interest income	11,192,602	9,507,232
<b>(Reversal of) provision for loan losses and other property owned</b>	<u>(484,701)</u>	<u>995,357</u>
Net interest income after provision for loan losses	11,677,303	8,511,875
<b><u>NONINTEREST INCOME</u></b>		
Income from the Farm Credit Bank of Texas:		
Patronage income	3,251,290	2,546,779
Loan fees	1,488,714	1,131,256
Refunds from Farm Credit System		
Insurance Corporation	-	262,284
Financially related services income	313,411	983,463
Gain (loss) on sale of premises and equipment, net	-	49,545
Other noninterest income	51,980	109,875
Total noninterest income	<u>5,105,395</u>	<u>5,083,202</u>
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	3,950,661	4,174,401
Directors' expense	134,994	197,587
Purchased services	428,558	286,814
Travel	241,351	311,197
Occupancy and equipment	961,181	468,789
Communications	78,911	58,135
Advertising	49,820	54,376
Public and member relations	232,608	211,419
Supervisory and exam expense	117,481	110,666
Insurance Fund premiums	506,289	210,041
Loss on other property owned, net	-	40,951
Other noninterest expense	278,505	297,986
Total noninterest expenses	<u>6,980,359</u>	<u>6,422,362</u>
Income before income taxes	9,802,339	7,172,715
Provision for (benefit from) income taxes	<u>111,224</u>	<u>(198,346)</u>
<b>NET INCOME</b>	<u>9,691,115</u>	<u>7,371,061</u>
Other comprehensive income:		
Change in postretirement benefit plans	684	4,743
<b>COMPREHENSIVE INCOME</b>	<u>\$ 9,691,799</u>	<u>\$ 7,375,804</u>

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

TEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2019	\$ 3,791,365	\$ 47,596,495	\$ 56,437,331	\$ 97,793,661	\$ (710,138)	\$ 204,908,714
Comprehensive income	-	-	-	7,371,061	4,743	7,375,804
Capital stock/participation certificates and allocated retained earnings issued	94,920	-	-	-	-	94,920
Capital stock/participation certificates and allocated retained earnings retired	(57,815)	-	-	-	-	(57,815)
<b>Balance at March 31, 2020</b>	<u>\$ 3,828,470</u>	<u>\$ 47,596,495</u>	<u>\$ 56,437,331</u>	<u>\$ 105,164,722</u>	<u>\$ (705,395)</u>	<u>\$ 212,321,623</u>
Balance at December 31, 2020	\$ 4,174,745	\$ 47,596,495	\$ 57,255,152	\$ 110,209,297	\$ (580,789)	\$ 218,654,900
Comprehensive income	-	-	-	9,691,115	684	9,691,799
Capital stock/participation certificates and allocated retained earnings issued	247,790	-	-	-	-	247,790
Capital stock/participation certificates and allocated retained earnings retired	(70,290)	-	-	-	-	(70,290)
<b>Balance at March 31, 2021</b>	<u>\$ 4,352,245</u>	<u>\$ 47,596,495</u>	<u>\$ 57,255,152</u>	<u>\$ 119,900,412</u>	<u>\$ (580,105)</u>	<u>\$ 228,524,199</u>

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



**TEXAS FARM CREDIT SERVICES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*Unaudited*

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

The Texas Farm Credit Services (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 Anderson, Angelina, Aransas, Atascosa, Austin, Bandera, Bee, Bexar, Bowie, Brooks, Cameron, Camp, Cass, Chambers, Cherokee, Collin, Cook, Dallas, Delta, Denton, DeWitt, Dimmit, Duval, Edwards, Fannin, Fayette, Franklin, Freestone, Frio, Goliad, Gonzales, Grayson, Gregg, Guadalupe, Hardin, Harrison, Henderson, Hidalgo, Hopkins, Houston, Hunt, Jasper, Jefferson, Jim Hogg, Jim Wells, Karnes, Kaufman, Kenedy, Kerr, Kinney, Kleberg, Lamar, LaSalle, Lavaca, Leon, Liberty, Limestone, Live Oak, Marion, Maverick, McMullen, Medina, Montgomery, Morris, Nacogdoches, Newton, Nueces, Orange, Panola, Polk, Rains, Real, Red River, Rockwall, Rusk, Sabine, San Augustine, San Jacinto, San Patricio, Shelby, Smith, Starr, Titus, Trinity, Tyler, Upshur, Uvalde, Val Verde, Van Zandt, Walker, Waller, Washington, Webb, Willacy, Wilson, Wood, Zapata, and Zavala, parts of Refugio, and the lower half of Lee in the State of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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

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

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

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

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

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

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

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain associations. 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 associations 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 Association and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended March 31, 2021, are not necessarily indicative of the results to be expected for the year ended December 31, 2020. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

## NOTE 2 — INVESTMENTS:

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

	<b>March 31, 2021</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Fair Value</b>	<b>Weighted Average Yield</b>	<b>Weighted Average Life</b>
Agricultural mortgage-backed securities	\$ 906,414	\$ 27,410	\$ 933,824	5.35%	4.09 Years
	<b>December 31, 2020</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Fair Value</b>	<b>Weighted Average Yield</b>	<b>Weighted Average Life</b>
Agricultural mortgage-backed securities	\$ 1,054,100	\$ 34,001	\$ 1,088,101	5.32%	4.40 Years

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

A summary of loans follows:

Loan Type	March 31,	December 31,
	2021	2020
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 1,269,817,136	\$ 1,185,059,563
Production and intermediate term	242,431,226	228,840,523
Agribusiness:		
Processing and marketing	74,583,556	84,433,768
Farm-related business	25,448,743	23,777,888
Loans to cooperatives	13,148,741	14,191,543
Communication	19,744,672	19,806,739
Energy	4,206,516	2,288,383
Water and waste water	2,055,593	2,083,988
Mission-related investments	1,564,502	1,579,523
Rural residential real estate	1,183,574	1,198,047
Total	<u>\$ 1,654,184,259</u>	<u>\$ 1,563,259,965</u>

The fair value of loans held for sale as of March 31, 2021 totaled \$2,440,335. The portfolio is made up of one loan transferred to held for sale classification in the first quarter 2021. There were no loans held for sale as of December 31, 2020. Loans held for sale are included within other assets on the balance sheet.

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations	Participations	Participations	Participations	Participations	Participations
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 41,161,008	\$ 133,049,513	\$ 13,930,886	\$ -	\$ 55,091,894	\$ 133,049,513
Production and intermediate term	35,088,920	266,554	-	-	35,088,920	266,554
Agribusiness	92,085,360	-	-	-	92,085,360	-
Communication	19,744,672	-	-	-	19,744,672	-
Energy	4,206,516	-	-	-	4,206,516	-
Water and waste water	2,055,593	-	-	-	2,055,593	-
Total	<u>\$ 194,342,069</u>	<u>\$ 133,316,067</u>	<u>\$ 13,930,886</u>	<u>\$ -</u>	<u>\$ 208,272,955</u>	<u>\$ 133,316,067</u>

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were \$487,835 and \$490,138 at March 31, 2021, and December 31, 2020, respectively.

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

	<b>March 31, 2021</b>	December 31, 2020
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 4,879,893	\$ 3,905,786
Production and intermediate term	1,973,160	2,737,500
Energy	667,966	-
Total nonaccrual loans	<u>7,521,019</u>	<u>6,643,286</u>
<b>Accruing restructured loans:</b>		
Mission-related investments	793,817	782,380
Total accruing restructured loans	<u>793,817</u>	<u>782,380</u>
<b>Accruing loans 90 days or more past due:</b>		
Production and intermediate term	57	10
Agribusiness	4,539	4,539
Total accruing loans 90 days or more past due	<u>4,596</u>	<u>4,549</u>
Total nonperforming loans	8,319,432	7,430,215
Other property owned	-	-
Total nonperforming assets	<u>\$ 8,319,432</u>	<u>\$ 7,430,215</u>

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

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

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

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Real estate mortgage		
Acceptable	97.7 %	97.6 %
OAEM	1.0 %	1.0 %
Substandard/doubtful	1.3 %	1.4 %
	<b>100.0 %</b>	<b>100.0 %</b>
Production and intermediate term		
Acceptable	92.0 %	91.6 %
OAEM	4.6 %	3.4 %
Substandard/doubtful	3.4 %	5.0 %
	<b>100.0 %</b>	<b>100.0 %</b>
Loans to cooperatives		
Acceptable	100.0 %	100.0 %
OAEM	- %	- %
Substandard/doubtful	- %	- %
	<b>100.0 %</b>	<b>100.0 %</b>
Processing and marketing		
Acceptable	95.7 %	96.1 %
OAEM	4.3 %	3.9 %
Substandard/doubtful	- %	- %
	<b>100.0 %</b>	<b>100.0 %</b>
Farm-related business		
Acceptable	80.1 %	78.7 %
OAEM	- %	- %
Substandard/doubtful	19.9 %	21.3 %
	<b>100.0 %</b>	<b>100.0 %</b>
Communication		
Acceptable	100.0 %	100.0 %
OAEM	- %	- %
Substandard/doubtful	- %	- %
	<b>100.0 %</b>	<b>100.0 %</b>
Energy		
Acceptable	84.1 %	69.6 %
OAEM	- %	- %
Substandard/doubtful	15.9 %	30.4 %
	<b>100.0 %</b>	<b>100.0 %</b>
Water and waste water		
Acceptable	100.0 %	100.0 %
OAEM	- %	- %
Substandard/doubtful	- %	- %
	<b>100.0 %</b>	<b>100.0 %</b>
Rural residential real estate		
Acceptable	57.4 %	57.2 %
OAEM	42.6 %	42.8 %
Substandard/doubtful	- %	- %
	<b>100.0 %</b>	<b>100.0 %</b>
Mission-related investments		
Acceptable	100.0 %	100.0 %
OAEM	- %	- %
Substandard/doubtful	- %	- %
	<b>100.0 %</b>	<b>100.0 %</b>
Total loans		
Acceptable	96.4 %	96.4 %
OAEM	1.7 %	1.5 %
Substandard/doubtful	1.9 %	2.1 %
	<b>100.0 %</b>	<b>100.0 %</b>

There were no loans and related interest in the loss category.

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

<u>March 31, 2021</u>	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	\$ 4,805,191	\$ 1,171,972	\$ 5,977,163	\$ 1,272,301,643	\$ 1,278,278,806	\$ -
Production and intermediate term	1,699,650	59,984	1,759,634	243,538,405	245,298,039	57
Processing and marketing	-	-	-	74,738,422	74,738,422	-
Farm-related business	-	-	-	25,685,680	25,685,680	-
Loans to cooperatives	-	4,539	4,539	13,310,480	13,315,019	4,539
Communication	-	-	-	19,745,715	19,745,715	-
Energy	-	-	-	4,213,332	4,213,332	-
Water and waste water	-	-	-	2,055,713	2,055,713	-
Mission-related investments	-	-	-	1,582,917	1,582,917	-
Rural residential real estate	-	-	-	1,188,865	1,188,865	-
<b>Total</b>	<b>\$ 6,504,841</b>	<b>\$ 1,236,495</b>	<b>\$ 7,741,336</b>	<b>\$ 1,658,361,172</b>	<b>\$ 1,666,102,508</b>	<b>\$ 4,596</b>

<u>December 31, 2020</u>	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	\$ 5,291,398	\$ 1,402,379	\$ 6,693,777	\$ 1,186,108,205	\$ 1,192,801,982	\$ -
Production and intermediate term	687,563	689,662	1,377,225	229,483,864	230,861,089	10
Processing and marketing	-	-	-	84,576,241	84,576,241	-
Farm-related business	-	-	-	23,893,922	23,893,922	-
Loans to cooperatives	-	4,539	4,539	14,505,313	14,509,852	4,539
Communication	-	-	-	19,807,802	19,807,802	-
Energy	-	-	-	2,288,775	2,288,775	-
Water and waste water	-	-	-	2,084,112	2,084,112	-
Mission-related investments	-	-	-	1,586,069	1,586,069	-
Rural residential real estate	109,917	-	109,917	1,092,841	1,202,758	-
<b>Total</b>	<b>\$ 6,088,878</b>	<b>\$ 2,096,580</b>	<b>\$ 8,185,458</b>	<b>\$ 1,565,427,144</b>	<b>\$ 1,573,612,602</b>	<b>\$ 4,549</b>

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

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings (TDRs) are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of March 31, 2021, the total recorded investment of troubled debt restructured loans was 2,759,245, including \$1,965,428 classified as nonaccrual and \$793,817 classified as accrual, with specific allowance for loan losses of \$17,620. As of March 31, 2021 and December 31, 2020, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

There were no troubled debt restructurings that occurred during the three months ended March 31, 2021.

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). There were no charge-offs recorded for the quarter ending March 31, 2021.

The predominant form of concession granted for troubled debt restructuring includes loan modifications in which interest rates are lower than the borrower could otherwise receive in the market based on credit worthiness. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times,

these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

There were no loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

The Association made no additional commitments to lend to borrowers whose loans have been modified in TDRs at March 31, 2021 and at December 31, 2020.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
Real estate mortgage	\$ 128,182	\$ 128,183	\$ 128,182	\$ 128,183
Production and intermediate term	1,837,246	1,901,360	1,837,246	1,901,360
Mission-related investments	793,817	782,380	-	-
Total	<u>\$ 2,759,245</u>	<u>\$ 2,811,923</u>	<u>\$ 1,965,428</u>	<u>\$ 2,029,543</u>

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

Additional impaired loan information is as follows:

	March 31, 2021			December 31, 2020		
	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ -	\$ -	\$ -	\$ 31,764	\$ 31,764	\$ 17,298
Production and intermediate term	-	-	-	87,127	88,710	20,924
Energy and water/waste water	667,966	667,966	174,646	-	-	-
Mission-related investments	53,749	52,003	17,620	52,702	52,003	17,330
Total	<u>\$ 721,715</u>	<u>\$ 719,969</u>	<u>\$ 192,266</u>	<u>\$ 171,593</u>	<u>\$ 172,477</u>	<u>\$ 55,552</u>
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 4,879,893	\$ 4,958,594	\$ -	\$ 3,874,022	\$ 3,955,118	\$ -
Production and intermediate term	1,973,217	2,570,952	-	2,650,383	3,422,698	-
Loans to cooperatives	4,539	-	-	4,539	-	-
Mission-related investments	740,068	721,752	-	729,678	722,339	-
Total	<u>\$ 7,597,717</u>	<u>\$ 8,251,298</u>	<u>\$ -</u>	<u>\$ 7,258,622</u>	<u>\$ 8,100,155</u>	<u>\$ -</u>
Total impaired loans:						
Real estate mortgage	\$ 4,879,893	\$ 4,958,594	\$ -	\$ 3,905,786	\$ 3,986,882	\$ 17,298
Production and intermediate term	1,973,217	2,570,952	-	2,737,510	3,511,408	20,924
Loans to cooperatives	4,539	-	-	4,539	-	-
Energy and water/waste water	667,966	667,966	174,646	-	-	-
Mission-related investments	793,817	773,755	17,620	782,380	774,342	17,330
Total	<u>\$ 8,319,432</u>	<u>\$ 8,971,267</u>	<u>\$ 192,266</u>	<u>\$ 7,430,215</u>	<u>\$ 8,272,632</u>	<u>\$ 55,552</u>

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

	For the Three Months Ended			
	March 31, 2021		March 31, 2020	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Energy and water/waste water	\$ 293,370	\$ -	\$ -	\$ -
Mission-related investments	52,003	1,047	53,003	1,067
Total	<u>\$ 345,373</u>	<u>\$ 1,047</u>	<u>\$ 53,003</u>	<u>\$ 1,067</u>
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 3,553,196	\$ 167,734	\$ 5,093,808	\$ 76,742
Production and intermediate term	2,202,483	6,041	3,547,363	7,810
Rural residential real estate	-	-	37,617	-
Mission-related investments	721,955	11,012	749,239	11,431
Total	<u>\$ 6,477,634</u>	<u>\$ 184,787</u>	<u>\$ 9,428,027</u>	<u>\$ 95,983</u>
Total impaired loans:				
Real estate mortgage	\$ 3,553,196	\$ 167,734	\$ 5,093,808	\$ 76,742
Production and intermediate term	2,202,483	6,041	3,547,363	7,810
Energy and water/waste water	293,370	-	-	-
Rural residential real estate	-	-	37,617	-
Mission-related investments	773,958	12,059	802,242	12,498
Total	<u>\$ 6,823,007</u>	<u>\$ 185,834</u>	<u>\$ 9,481,030</u>	<u>\$ 97,050</u>

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Water and Waste Water	Rural Residential Real Estate	Mission-Related Investments	Total
<b>Allowance for Credit Losses:</b>									
Balance at December 31, 2020	\$ 2,610,698	\$ 3,045,619	\$ 267,403	\$ 43,069	\$ 4,976	\$ 4,532	\$ 2,615	\$ 20,779	\$ 5,999,691
Recoveries	2,392	180,120	-	-	-	-	-	-	182,512
Provision for loan losses	44,289	(673,503)	(30,962)	(2,022)	178,429	(259)	(144)	132	(484,040)
Other	(332)	6,885	-	-	-	-	-	-	6,553
Balance at March 31, 2021	<u>\$ 2,657,047</u>	<u>\$ 2,559,121</u>	<u>\$ 236,441</u>	<u>\$ 41,047</u>	<u>\$ 183,405</u>	<u>\$ 4,273</u>	<u>\$ 2,471</u>	<u>\$ 20,911</u>	<u>\$ 5,704,716</u>
Ending Balance:									
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 174,646	\$ -	\$ -	\$ 17,620	\$ 192,266
Collectively evaluated for impairment	2,657,047	2,559,121	236,441	41,047	8,759	4,273	2,471	3,291	5,512,450
Balance at March 31, 2021	<u>\$ 2,657,047</u>	<u>\$ 2,559,121</u>	<u>\$ 236,441</u>	<u>\$ 41,047</u>	<u>\$ 183,405</u>	<u>\$ 4,273</u>	<u>\$ 2,471</u>	<u>\$ 20,911</u>	<u>\$ 5,704,716</u>
Balance at December 31, 2019	\$ 1,853,403	\$ 1,656,635	\$ 746,813	\$ 9,978	\$ 20,898	\$ -	\$ 11,724	\$ 24,453	\$ 4,323,904
Recoveries	28,233	-	-	-	-	-	-	-	28,233
Provision for loan losses	(509,801)	2,137,349	(604,830)	4,815	(17,126)	-	(9,484)	(5,566)	995,357
Other	23,673	6,746	-	-	-	-	-	-	30,419
Balance at March 31, 2020	<u>\$ 1,395,508</u>	<u>\$ 3,800,730</u>	<u>\$ 141,983</u>	<u>\$ 14,793</u>	<u>\$ 3,772</u>	<u>\$ -</u>	<u>\$ 2,240</u>	<u>\$ 18,887</u>	<u>\$ 5,377,913</u>
Ending Balance:									
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,563	\$ 16,563
Collectively evaluated for impairment	1,395,508	3,800,730	141,983	14,793	3,772	-	2,240	2,324	5,361,350
Balance at March 31, 2020	<u>\$ 1,395,508</u>	<u>\$ 3,800,730</u>	<u>\$ 141,983</u>	<u>\$ 14,793</u>	<u>\$ 3,772</u>	<u>\$ -</u>	<u>\$ 2,240</u>	<u>\$ 18,887</u>	<u>\$ 5,377,913</u>



	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Water and Waste Water	Rural Residential Real Estate	Mission-Related Investments	Total
<b>Recorded Investments</b>									
<b>in Loans Outstanding:</b>									
Ending Balance at									
March 31, 2021	\$ 1,278,278,806	\$ 245,298,039	\$ 113,739,121	\$ 19,745,715	\$ 4,213,332	\$ 2,055,713	\$ 1,188,865	\$ 1,582,917	\$ 1,666,102,508
Individually evaluated for impairment	\$ 4,879,893	\$ 1,973,217	\$ 4,539	\$ -	\$ 667,966	\$ -	\$ -	\$ 793,817	\$ 8,319,432
Collectively evaluated for impairment	\$ 1,273,398,913	\$ 243,324,822	\$ 113,734,582	\$ 19,745,715	\$ 3,545,366	\$ 2,055,713	\$ 1,188,865	\$ 789,100	\$ 1,657,783,076
Ending Balance at									
March 31, 2020	\$ 1,000,701,737	\$ 238,625,252	\$ 101,259,053	\$ 10,522,654	\$ 2,682,398	\$ -	\$ 1,596,518	\$ 1,670,809	\$ 1,357,058,421
Individually evaluated for impairment	\$ 5,164,063	\$ 3,230,896	\$ -	\$ -	\$ -	\$ -	\$ 37,617	\$ 822,787	\$ 9,255,363
Collectively evaluated for impairment	\$ 995,427,299	\$ 235,394,356	\$ 101,259,053	\$ 10,522,654	\$ 2,682,398	\$ -	\$ 1,558,901	\$ 848,022	\$ 1,347,692,683
Loans acquired with deteriorated credit quality	\$ 110,375	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 110,375

#### NOTE 4 —LEASES:

The components of lease expense were as follows:

	Classification	For the Three Months Ended	
		March 31, 2021	March 31, 2020
Operating lease cost	Right of use asset	\$ 29,807	\$ 32,157
Short-term lease cost		3,600	5,401
Finance lease cost:			
Amortization of right-of-use assets		4,825	1,628
Net lease cost		\$ 38,232	\$ 39,186

Other information related to leases was as follows:

	For the Three Months Ended	
	March 31, 2021	March 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 34,632	\$ 33,957
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 29,807	\$ 32,157

Lease term and discount rate are as follows:

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
Weighted average remaining lease term in years		
Operating leases	3.75	3.68
Weighted average discount rate		
Operating leases	1.23%	1.30%

Future minimum lease payments under non-cancellable leases as of March 31, 2021 were as follows:

	<u>Operating Leases</u>
2021 (excluding the three months ended 3/31/21)	\$ 86,713
2022	91,105
2023	48,532
2024	44,742
2025	45,653
Thereafter	7,634
Total	<u>\$ 324,379</u>

#### NOTE 5 — 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 Association's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected patronage distributions, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of the Association'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

<u>Risk-adjusted:</u>	<u>Regulatory Requirements Including Capital Conservation Buffers</u>	<u>As of March 31, 2021</u>
Common equity tier 1 ratio	7.00%	12.18%
Tier 1 capital ratio	8.50%	12.18%
Total capital ratio	10.50%	12.58%
Permanent capital ratio	7.00%	12.23%
<u>Non-risk-adjusted:</u>		
Tier 1 leverage ratio	5.00%	12.11%
UREE leverage ratio	1.50%	9.16%

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
<b>Numerator:</b>				
Unallocated retained earnings	\$ 66,376,130	\$ 66,376,130	\$ 66,376,130	\$ 66,376,130
Paid-in capital	47,596,495	47,596,495	47,596,495	47,596,495
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,236,545	4,236,545	4,236,545	4,236,545
Allocated equities:				
Allocated equities held $\geq 7$	57,255,152	57,255,152	57,255,152	57,255,152
Nonqualified allocated equities not subject to retirement	47,817,342	47,817,342	47,817,342	47,817,342
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	6,453,714	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(24,612,288)	(24,612,288)	(24,612,288)	(24,612,288)
Other regulatory required deductions	(1,957,712)	(1,957,712)	(1,957,712)	(1,957,712)
	<u>\$ 196,711,664</u>	<u>\$ 196,711,664</u>	<u>\$ 203,165,378</u>	<u>\$ 196,711,664</u>
<b>Denominator:</b>				
Risk-adjusted assets excluding allowance	\$ 1,641,510,187	\$ 1,641,510,187	\$ 1,641,510,187	\$ 1,641,510,187
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(26,570,000)	(26,570,000)	(26,570,000)	(26,570,000)
Allowance for loan losses	-	-	-	(6,176,960)
	<u>\$ 1,614,940,187</u>	<u>\$ 1,614,940,187</u>	<u>\$ 1,614,940,187</u>	<u>\$ 1,608,763,227</u>
<b>Calculated Ratio</b>	<b>12.18%</b>	<b>12.18%</b>	<b>12.58%</b>	<b>12.23%</b>

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
<b>Numerator:</b>		
Unallocated retained earnings	\$ 66,376,130	\$ 66,376,130
Paid-in capital	47,596,495	47,596,495
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,236,545	-
Allocated equities:		
Allocated equities held $\geq 7$	57,255,152	-
Nonqualified allocated equities not subject to retirement	47,817,342	47,817,342
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(24,612,288)	(11,022,481)
Other regulatory required deductions	(1,957,712)	(1,957,712)
	<u>\$ 196,711,664</u>	<u>\$ 148,809,774</u>
<b>Denominator:</b>		
Total Assets	\$ 1,651,684,632	\$ 1,651,684,632
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(27,040,555)	(27,040,555)
	<u>\$ 1,624,644,077</u>	<u>\$ 1,624,644,077</u>
<b>Calculated Ratio</b>	<b>12.11%</b>	<b>9.16%</b>

An additional component of equity is accumulated other comprehensive income (loss), which is reported net of taxes, is as follows:

<b>Accum Other Comp Loss</b>	
<b>March 31, 2021</b>	<b>Net of Tax</b>
<b>Nonpension postretirement benefits</b>	<b>\$ (580,105)</b>
March 31, 2020	Net of Tax
Nonpension postretirement benefits	\$ (705,395)

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

	<u>2021</u>	<u>2020</u>
Accumulated other comprehensive loss at January 1	\$ (580,789)	\$ (710,138)
Amortization of prior service credit included in salaries and employee benefits	(5,429)	(5,429)
Amortization of actuarial gain included in salaries and employee benefits	6,113	10,172
Other comprehensive income, net of tax	684	4,743
Accumulated other comprehensive loss at March 31	<u>\$ (580,105)</u>	<u>\$ (705,395)</u>

#### **NOTE 6 — INCOME TAXES:**

Texas Farm Credit Services conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Texas Farm credit Services operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Texas Farm Credit Services can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association 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 no valuation allowance on its deferred tax assets because management estimates full utilization of these assets.

#### **NOTE 7 — 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 15 to the 2020 Annual Report to Stockholders for a more complete description.

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

<u>March 31, 2021</u>	<u>Fair Value Measurement Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Loans*	\$ -	\$ -	\$ 529,448
Other property owned	-	-	-
<u>December 31, 2020</u>	<u>Fair Value Measurement Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Loans*	\$ -	\$ -	\$ 100,575
Other property owned	-	-	-

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

### **Information About Recurring and 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 associations 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 2 to the 2020 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association’s assets and liabilities. For a more complete description, see Notes to the 2020 Annual Report to Stockholders

#### *Loans Evaluated for Impairment*

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

#### *Other Property Owned*

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

#### *Cash*

For cash, the carrying amount is a reasonable estimate of fair value.

#### *Loans*

Fair value is estimated by discounting the expected future cash flows using the Associations’ current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Associations’ current loan origination rates as well as management’s estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

**NOTE 8 — EMPLOYEE BENEFIT PLANS:**

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

	Other Benefits	
	2021	2020
Service cost	\$ 14,787	\$ 14,302
Interest cost	32,529	40,313
Amortization of prior service credits	(5,429)	(5,429)
Amortization of net actuarial loss	6,113	10,171
Net periodic benefit cost	<u>\$ 48,000</u>	<u>\$ 59,357</u>

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2021, was \$4,732,577 and is included in other liabilities on the balance sheet.

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

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2020, that it expected to contribute \$632,970 to the district's defined benefit pension plan in 2021. As of March 31, 2021, \$158,243 of contributions have been expensed. The Association presently does not anticipate additional contributions over \$632,970 will be required in 2021.

**NOTE 9 — 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 10 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through May 6, 2021, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of this date.