TEXAS FARM CREDIT SERVICES

2021
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 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
November 3, 2021

/s/ Gregory T. Richbourg

Gregory T. Richbourg, Chairman, Audit Committee Chairman
November 3, 2021

/s/ Keith A. Ibrom

Keith A. Ibrom, Chief Financial Officer
November 3, 2021

The following commentary reviews the financial performance of the Texas Farm Credit Services, referred to as the Association, for the quarter 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 Associations 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 September 30, 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 September 30, 2021, including nonaccrual loans and sales contracts, were $1,878,401,932 compared to $1,563,259,965 at December 31, 2020, reflecting an increase of 20.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.5 percent at September 30, 2021, compared to 0.4 percent at December 31, 2020.

The Association recorded $3,921 in recoveries and $0 in charge-offs for the quarter ended September 30, 2021, and $2,417 in recoveries and $1,583 in charge-offs for the same period in 2020. The Association's allowance for loan losses was 0.2 percent and 0.4 percent of total loans outstanding as of September 30, 2021, and December 31, 2020, respectively.

Risk Exposure

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

	September 30, 2021		December 31, 2020	
	Amount	**%**	Amount	%
Nonaccrual	**$ 8,818,666**	**92.0%**	$ 6,643,286	89.4%
90 days past due and still accruing interest	**4,550**	**0.0%**	4,549	0.1%
Formally restructured	**764,906**	**8.0%**	782,380	10.5%
Other property owned, net	**-**	**0.0%**	-	0.0%
Total	**$ 9,588,122**	**100.0%**	$ 7,430,215	100.0%

Results of Operations

The Association had net income of $11,675,393 and $35,072,974 for the three and nine months ended September 30, 2021, as compared to net income of $7,628,050 and $23,586,813 for the same period in 2020, reflecting an increase of 53.1 percent and 48.7 percent. Net interest income was $12,152,481 and $35,189,495 for the three and nine months ended September 30, 2021, compared to $10,277,723 and $29,671,971 for the same period in 2020.

	Nine Months Ended			
	September 30, 2021		September 30, 2020	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 1,727,467,516**	**$ 57,041,775**	$ 1,392,905,745	$ 51,613,126
Investments	**900,146**	**38,217**	1,728,355	75,876
Total interest-earning assets	**1,728,367,662**	**57,079,992**	1,394,634,100	51,689,002
Interest-bearing liabilities	**1,530,949,096**	**21,890,497**	1,221,181,340	22,017,031
Impact of capital	**$ 197,418,566**		$ 173,452,760	
Net interest income		**$ 35,189,495**		$ 29,671,971

	2021 Average Yield	2020 Average Yield
Yield on loans	**4.41%**	4.95%
Yield on investments	**5.68%**	5.86%
Total yield on interest-earning assets	**4.42%**	4.95%
Cost of interest-bearing liabilities	**1.91%**	2.41%
Interest rate spread	**2.51%**	2.54%
Net interest income as a percentage of average earning assets	**2.72%**	2.84%

	Nine months ended: September 30, 2021 vs. September 30, 2020		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 12,385,576**	**$ (6,956,927)**	**$ 5,428,649**
Interest income - investments	**(36,325)**	**(1,334)**	**(37,659)**
Total interest income	**12,349,250**	**(6,958,260)**	**5,390,990**
Interest expense	**5,579,774**	**(5,706,308)**	**(126,534)**
Net interest income	**$ 6,769,477**	**$ (1,251,953)**	**$ 5,517,524**

Interest income for the three and nine months ended September 30, 2021, increased by $2,952,442 and $5,390,990, or 17.3 percent and 10.4 percent respectively, from the same period of 2020, primarily due to an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2021, increased by $1,077,684 and decreased by $126,534, or 15.9 percent and 0.6 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, including investments, for the nine months ended September 30, 2021 was $1,728,367,662, compared to $1,394,634,100 for the same period in 2020. The average net interest rate spread on the loan portfolio for the nine months ended September 30, 2021 was 2.51 percent, compared to 2.54 percent for the same period in 2020.

Noninterest income for the nine months ended September 30, 2021, increased by $3,552,631, or 26.2 percent, compared to the same period of 2020, primarily due to an increase in patronage income and loan related fee income. Noninterest expenses for the nine months ended September 30, 2021, increased by $2,151,976, or 11.9 percent, compared to the same period of 2020, due to increases in insurance fund premiums and the return to a more normal operating environment from COVID-19. Provisions for loan losses for the nine months ended September 30, 2021, decreased by $5,347,755, or 279.1 percent, compared to the same period of 2020, due to a decrease in the valuation allowance related to the COVID-19 pandemic that was established in 2020, an increase in guaranteed loans, and an increase in credit quality.

The Association's return on average assets for the nine months ended September 30, 2021, was 2.62 percent compared to 2.16 percent for the same period in 2020. The Association's return on average equity for the nine months ended September 30, 2021, was 19.97 percent, compared to 14.55 percent for the same period in 2020.

Liquidity and Funding Sources

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

	September 30, 2021	December 31, 2020
Note payable to the Bank	**$ 1,683,204,276**	$ 1,364,703,280
Accrued interest on note payable	**2,591,594**	2,237,465
Total	**$ 1,685,795,870**	$ 1,366,940,745

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 $1,683,204,276 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 1.91 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 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 $198,767,731 at September 30, 2021. The maximum amount the Association may borrow from the Bank as of September 30, 2021, was $1,883,622,513 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.

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 $34,982,304 at September 30, 2021, compared to December 31, 2020. The Association's debt as a percentage of members' equity was 6.70:1 as of September 30, 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 September 30, 2021, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

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

Relationship With the Farm Credit Bank of Texas

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Consolidated 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.*

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. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing kibrom@texasfcs.com.

TEXAS FARM CREDIT SERVICES

CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2021	December 31, 2020
ASSETS		
Cash	$ 8,383,264	$ 2,373,598
Investments	794,340	1,054,100
Loans	1,878,401,932	1,563,259,965
Less: allowance for loan losses	3,066,075	5,999,691
Net loans	1,875,335,857	1,557,260,274
Accrued interest receivable	13,809,568	10,371,113
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	24,663,185	24,760,550
Other	9,527,761	719,400
Deferred taxes, net	238,156	711,938
Premises and equipment, net	14,820,940	14,367,270
Other assets	6,019,759	3,026,151
Total assets	$ 1,953,592,830	$ 1,614,644,394
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ 1,683,204,276	$ 1,364,703,280
Advance conditional payments	878,362	490,138
Accrued interest payable	2,591,594	2,237,465
Drafts outstanding	167,926	77,855
Patronage distributions payable	-	14,851,050
Other liabilities	13,113,468	13,629,706
Total liabilities	1,699,955,626	1,395,989,494
MEMBERS' EQUITY		
Capital stock and participation certificates	4,226,010	4,174,745
Additional paid-in capital	47,596,495	47,596,495
Allocated retained earnings	57,254,242	57,255,152
Unallocated retained earnings	145,139,194	110,209,297
Accumulated other comprehensive income (loss)	(578,737)	(580,789)
Total members' equity	253,637,204	218,654,900
Total liabilities and members' equity	$ 1,953,592,830	$ 1,614,644,394

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

TEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2021	2020	**2021**	2020
INTEREST INCOME				
Loans	**$ 19,989,335**	$ 17,030,293	**$ 57,041,775**	$ 51,613,126
Investments	**11,932**	18,532	**38,217**	75,876
Total interest income	**20,001,267**	17,048,825	**57,079,992**	51,689,002
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**7,848,751**	6,771,573	**21,890,404**	22,015,296
Advance conditional payments	**35**	(471)	**93**	1,735
Total interest expense	**7,848,786**	6,771,102	**21,890,497**	22,017,031
Net interest income	**12,152,481**	10,277,723	**35,189,495**	29,671,971
(Reversal of) provision for loan losses and other property owned	**(767,146)**	317,051	**(3,431,441)**	1,916,314
Net interest income after provision for loan losses	**12,919,627**	9,960,672	**38,620,936**	27,755,657
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**3,297,200**	2,404,418	**9,825,247**	7,407,355
Loan fees	**1,684,087**	706,898	**3,720,313**	2,856,439
Refunds from Farm Credit System Insurance Corporation	**-**	-	**-**	262,284
Financially related services income	**753,036**	463,107	**2,831,222**	2,661,661
Gain (loss) on other property owned, net	**-**	26,403	**-**	(41,827)
Gain (loss) on sale of premises and equipment, net	**73,212**	60,309	**546,607**	172,725
Other noninterest income	**37,920**	32,467	**186,522**	238,643
Total noninterest income	**5,845,455**	3,693,602	**17,109,911**	13,557,280
NONINTEREST EXPENSES				
Salaries and employee benefits	**3,891,814**	3,634,638	**11,618,067**	11,779,554
Directors' expense	**255,740**	156,237	**444,509**	414,186
Purchased services	**376,912**	278,047	**1,098,536**	808,940
Travel	**303,967**	212,742	**867,154**	715,604
Occupancy and equipment	**512,757**	809,511	**2,009,089**	1,766,057
Communications	**102,650**	86,054	**287,919**	250,918
Advertising	**114,903**	35,919	**223,551**	137,705
Public and member relations	**252,456**	105,459	**658,518**	408,194
Supervisory and exam expense	**95,820**	92,309	**330,782**	313,641
Insurance Fund premiums	**611,877**	323,766	**1,676,677**	753,327
Other noninterest expense	**432,408**	270,450	**969,289**	683,989
Total noninterest expenses	**6,951,304**	6,005,132	**20,184,091**	18,032,115
Income before income taxes	**11,813,778**	7,649,142	**35,546,756**	23,280,822
Provision for (benefit from) income taxes	**138,385**	21,092	**473,782**	(305,991)
NET INCOME	**11,675,393**	7,628,050	**35,072,974**	23,586,813
Other comprehensive income:				
Change in postretirement benefit plans	**684**	4,743	**2,052**	14,229
COMPREHENSIVE INCOME	**$ 11,676,077**	$ 7,632,793	**$ 35,075,026**	$ 23,601,042

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 Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2019	$ 3,791,365	$ 47,596,495	$ 56,437,331	$ 97,793,661	$ (710,138)	$ 204,908,714
Comprehensive income	-	-	-	23,586,813	14,229	23,601,042
Capital stock/participation certificates and allocated retained earnings issued	429,540	-	-	-	-	429,540
Capital stock/participation certificates and allocated retained earnings retired	(174,545)	-	-	-	-	(174,545)
Patronage refunds:						
Cash	-	-	(705)	(20,320)	-	(21,025)
Balance at September 30, 2020	$ 4,046,360	$ 47,596,495	$ 56,436,626	$ 121,360,154	$ (695,909)	$ 228,743,726
Balance at December 31, 2020	$ 4,174,745	$ 47,596,495	$ 57,255,152	$ 110,209,297	$ (580,789)	$ 218,654,900
Comprehensive income	-	-	-	35,072,974	2,052	35,075,026
Capital stock/participation certificates and allocated retained earnings issued	745,330	-	-			745,330
Capital stock/participation certificates and allocated retained earnings retired	(694,065)	-	-			(694,065)
Patronage refunds:						
Cash	-	-	-	(143,077)		(143,077)
Capital stock/participation certificates and allocated retained earnings	-	-	(910)	-		(910)
Balance at September 30, 2021	**$ 4,226,010**	**$ 47,596,495**	**$ 57,254,242**	**$ 145,139,194**	**$ (578,737)**	**$ 253,637,204**

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

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 Association 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 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 applied the optional expedients 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 its results of operations.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain 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 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 – INVESTMENTS:

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

	September 30, 2021				
	Amortized Cost	**Gross Unrealized Gains**	**Fair Value**	**Weighted Average Yield**	**Weighted Average Life**
Agricultural mortgage-backed securities	**$ 794,340**	**$ 21,908**	**$ 816,248**	**5.30%**	**3.97 Years**

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Fair Value	Weighted Average Yield	Weighted Average Life
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	**September 30, 2021 Amount**	December 31, 2020 Amount
Production agriculture:		
Real estate mortgage	**$ 1,510,134,690**	$ 1,185,059,563
Production and intermediate term	**211,448,261**	228,840,523
Agribusiness:		
Processing and marketing	**71,632,920**	84,433,768
Farm-related business	**32,629,422**	23,777,888
Loans to cooperatives	**21,879,877**	14,191,543
Communication	**16,170,719**	19,806,739
Energy	**5,294,376**	2,288,383
Agricultural export finance	**4,086,152**	-
Water and waste water	**3,119,298**	2,083,988
Rural residential real estate	**1,152,400**	1,198,047
Mission-related investments	**853,817**	1,579,523
Total	**$ 1,878,401,932**	$ 1,563,259,965

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 September 30, 2021:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 44,061,369	$ 98,696,020	$ 11,192,785	$ -	$ 55,254,154	$ 98,696,020
Production and intermediate term	22,929,408	7,715,159	-	-	22,929,408	7,715,159
Agribusiness	89,269,917	-	-	-	89,269,917	-
Communication	16,170,719	-	-	-	16,170,719	-
Energy	5,294,376	-	-	-	5,294,376	-
Agricultural export finance	4,086,152	-	-	-	4,086,152	-
Water and waste water	3,119,298	-	-	-	3,119,298	-
Total	$ 184,931,239	$ 106,411,179	$ 11,192,785	$ -	$ 196,124,024	$ 106,411,179

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 $878,362 and $490,138 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	**$ 5,753,223**	$ 3,905,786
Production and intermediate term	**2,457,341**	2,737,500
Energy	**608,102**	-
Total nonaccrual loans	**8,818,666**	6,643,286
Accruing restructured loans:		
Mission-related investments	**764,906**	782,380
Total accruing restructured loans	**764,906**	782,380
Accruing loans 90 days or more past due:		
Production and intermediate term	**10**	10
Agribusiness	**4,540**	4,539
Total accruing loans 90 days or more past due	**4,550**	4,549
Total nonperforming loans	**9,588,122**	7,430,215
Other property owned	**-**	-
Total nonperforming assets	**$ 9,588,122**	$ 7,430,215

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:

	September 30, 2021	December 31, 2020
Real estate mortgage		
Acceptable	**98.7 %**	97.6 %
OAEM	**0.8 %**	1.0 %
Substandard/doubtful	**0.5 %**	1.4 %
	100.0 %	100.0 %
Production and intermediate term		
Acceptable	**93.8 %**	91.6 %
OAEM	**3.5 %**	3.4 %
Substandard/doubtful	**2.7 %**	5.0 %
	100.0 %	100.0 %
Loans to cooperatives		
Acceptable	**94.2 %**	100.0 %
OAEM	**5.8 %**	- %
Substandard/doubtful	**- %**	- %
	100.0 %	100.0 %
Processing and marketing		
Acceptable	**100.0 %**	96.1 %
OAEM	**- %**	3.9 %
Substandard/doubtful	**- %**	- %
	100.0 %	100.0 %
Farm-related business		
Acceptable	**57.7 %**	78.7 %
OAEM	**- %**	- %
Substandard/doubtful	**42.3 %**	21.3 %
	100.0 %	100.0 %
Communication		
Acceptable	**100.0 %**	100.0 %
OAEM	**- %**	- %
Substandard/doubtful	**- %**	- %
	100.0 %	100.0 %
Energy		
Acceptable	**88.5 %**	69.6 %
OAEM	**- %**	- %
Substandard/doubtful	**11.5 %**	30.4 %
	100.0 %	100.0 %
Water and waste water		
Acceptable	**100.0 %**	100.0 %
OAEM	**- %**	- %
Substandard/doubtful	**- %**	- %
	100.0 %	100.0 %
Agricultural export finance		
Acceptable	**100.0 %**	- %
OAEM	**- %**	- %
Substandard/doubtful	**- %**	- %
	100.0 %	- %
Rural residential real estate		
Acceptable	**57.5 %**	57.2 %
OAEM	**33.7 %**	42.8 %
Substandard/doubtful	**8.8 %**	- %
	100.0 %	100.0 %
Mission-related investments		
Acceptable	**100.0 %**	100.0 %
OAEM	**- %**	- %
Substandard/doubtful	**- %**	- %
	100.0 %	100.0 %
Total loans		
Acceptable	**97.4 %**	96.4 %
OAEM	**1.1 %**	1.5 %
Substandard/doubtful	**1.5 %**	2.1 %
	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	**$ 4,323,173**	**$ 172,169**	**$ 4,495,342**	**$ 1,515,710,012**	**$ 1,520,205,354**	**$ -**
Production and intermediate term	**524,371**	**10**	**524,381**	**213,767,522**	**214,291,903**	**10**
Processing and marketing	**-**	**-**	**-**	**71,810,644**	**71,810,644**	**-**
Farm-related business	**-**	**-**	**-**	**33,017,895**	**33,017,895**	**-**
Loans to cooperatives	**-**	**4,540**	**4,540**	**22,143,025**	**22,147,565**	**4,540**
Communication	**-**	**-**	**-**	**16,171,545**	**16,171,545**	**-**
Energy	**-**	**-**	**-**	**5,314,427**	**5,314,427**	**-**
Agricultural export finance	**-**	**-**	**-**	**4,091,532**	**4,091,532**	**-**
Water and waste water	**-**	**-**	**-**	**3,120,673**	**3,120,673**	**-**
Rural residential real estate	**102,461**	**-**	**102,461**	**1,055,546**	**1,158,007**	**-**
Mission-related investments	**-**	**-**	**-**	**870,642**	**870,642**	**-**
Total	**$ 4,950,005**	**$ 176,719**	**$ 5,126,724**	**$ 1,887,073,463**	**$ 1,892,200,187**	**$ 4,550**

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	$ 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	-
Total	$ 6,088,878	$ 2,096,580	$ 8,185,458	$ 1,565,427,144	$ 1,573,612,602	$ 4,549

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 September 30, 2021, the total recorded investment of troubled debt restructured loans was $893,089, including $128,183 classified as nonaccrual and $764,906 classified as accrual, with specific allowance for loan losses of $17,647. As of September 30, 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 nine months ended September 30, 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 September 30, 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 creditworthiness. 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 September 30, 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*	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Real estate mortgage	$ 128,183	$ 128,183	$ 128,183	$ 128,183
Production and intermediate term	-	1,901,360	-	1,901,360
Mission-related investments	764,906	782,380	-	-
Total	$ 893,089	$ 2,811,923	$ 128,183	$ 2,029,543

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

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	**$ -**	**$ -**	**$ -**	$ 31,764	$ 31,764	$ 17,298
Production and intermediate term	**-**	**-**	**-**	87,127	88,710	20,924
Energy and water/waste water	**608,102**	**608,102**	**142,881**	-	-	-
Mission-related investments	**51,681**	**50,003**	**17,647**	52,702	52,003	17,330
Total	**$ 659,783**	**$ 658,105**	**$ 160,528**	$ 171,593	$ 172,477	$ 55,552
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 5,753,223**	**$ 5,827,167**	**$ -**	$ 3,874,022	$ 3,955,118	$ -
Production and intermediate term	**2,457,351**	**2,821,132**	**-**	2,650,383	3,422,698	-
Loans to cooperatives	**4,540**	**-**	**-**	4,539	-	-
Mission-related investments	**713,225**	**695,549**	**-**	729,678	722,339	-
Total	**$ 8,928,339**	**$ 9,343,848**	**$ -**	$ 7,258,622	$ 8,100,155	$ -
Total impaired loans:						
Real estate mortgage	**$ 5,753,223**	**$ 5,827,167**	**$ -**	$ 3,905,786	$ 3,986,882	$ 17,298
Production and intermediate term	**2,457,351**	**2,821,132**	**-**	2,737,510	3,511,408	20,924
Loans to cooperatives	**4,540**	**-**	**-**	4,539	-	-
Energy and water/waste water	**608,102**	**608,102**	**142,881**	-	-	-
Mission-related investments	**764,906**	**745,552**	**17,647**	782,380	774,342	17,330
Total	**$ 9,588,122**	**$ 10,001,953**	**$ 160,528**	$ 7,430,215	$ 8,272,632	$ 55,552

[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:								
Production and intermediate term	**$ -**	**$ -**	$ 2,035,966	$ -	**$ -**	**$ -**	$ 1,989,140	$ -
Energy and water/waste water	**636,853**	**-**	-	-	**533,529**	**-**	-	-
Mission-related investments	**50,003**	**1,006**	52,003	1,046	**50,896**	**3,073**	52,459	3,167
Total	**$ 686,856**	**$ 1,006**	$ 2,087,969	$ 1,046	**$ 584,425**	**$ 3,073**	$ 2,041,599	$ 3,167
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 5,758,810**	**$ 19,322**	$ 7,639,456	$ 9,234	**$ 4,976,198**	**$ 262,456**	$ 6,095,669	$ 89,459
Production and intermediate term	**2,025,654**	**9,666**	1,098,406	53	**1,705,255**	**15,752**	1,099,739	26,850
Mission-related investments	**695,756**	**10,611**	723,114	11,031	**707,524**	**32,370**	735,078	33,628
Total	**$ 8,480,220**	**$ 39,599**	$ 9,460,976	$ 20,318	**$ 7,388,977**	**$ 310,578**	$ 7,930,486	$ 149,937
Total impaired loans:								
Real estate mortgage	**$ 5,758,810**	**$ 19,322**	$ 7,639,456	$ 9,234	**$ 4,976,198**	**$ 262,456**	$ 6,095,669	$ 89,459
Production and intermediate term	**2,025,654**	**9,666**	3,134,372	53	**1,705,255**	**15,752**	3,088,879	26,850
Energy and water/waste water	**636,853**	**-**	-	-	**533,529**	**-**	-	-
Mission-related investments	**745,759**	**11,617**	775,117	12,077	**758,420**	**35,443**	787,537	36,795
Total	**$ 9,167,076**	**$ 40,605**	$ 11,548,945	$ 21,364	**$ 7,973,402**	**$ 313,651**	$ 9,972,085	$ 153,104

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	Agricultural Export Finance	Mission-Related Investments	Total
Allowance for Credit Losses:									
Balance at June 30, 2021	**$ 1,757,162**	**$ 1,533,804**	**$ 147,126**	**$ 24,464**	**$ 272,121**	**$ 1,459**	**$ 5,336**	**$ 19,251**	**$ 3,760,723**
Recoveries	**2,338**	**1,583**	**-**	**-**	**-**	**-**	**-**	**-**	**3,921**
Provision for loan losses	**(8,828)**	**(630,380)**	**(1,157)**	**(5,874)**	**(119,543)**	**(128)**	**(633)**	**(603)**	**(767,146)**
Other	**(2,910)**	**71,487**	**-**	**-**	**-**	**-**	**-**	**-**	**68,577**
Balance at September 30, 2021	**$ 1,747,762**	**$ 976,494**	**$ 145,969**	**$ 18,590**	**$ 152,578**	**$ 1,331**	**$ 4,703**	**$ 18,648**	**$ 3,066,075**
Balance at December 31, 2020	**$ 2,610,697**	**$ 3,045,620**	**$ 267,403**	**$ 43,069**	**$ 9,508**	**$ 2,615**	**$ -**	**$ 20,779**	**$ 5,999,691**
Recoveries	**7,122**	**410,117**	**-**	**-**	**-**	**-**	**-**	**-**	**417,239**
Provision for loan losses	**(866,482)**	**(2,563,405)**	**(121,434)**	**(24,479)**	**143,070**	**(1,284)**	**4,703**	**(2,131)**	**(3,431,442)**
Other	**(3,575)**	**84,162**	**-**	**-**	**-**	**-**	**-**	**-**	**80,587**
Balance at September 30, 2021	**$ 1,747,762**	**$ 976,494**	**$ 145,969**	**$ 18,590**	**$ 152,578**	**$ 1,331**	**$ 4,703**	**$ 18,648**	**$ 3,066,075**
Ending Balance:									
Individually evaluated for impairment	**$ -**	**$ -**	**$ -**	**$ -**	**$ 142,881**	**$ -**	**$ -**	**$ 17,647**	**$ 160,528**
Collectively evaluated for impairment	**1,747,762**	**976,494**	**145,969**	**18,590**	**9,697**	**1,331**	**4,703**	**1,001**	**2,905,547**
Balance at September 30, 2021	**$ 1,747,762**	**$ 976,494**	**$ 145,969**	**$ 18,590**	**$ 152,578**	**$ 1,331**	**$ 4,703**	**$ 18,648**	**$ 3,066,075**

Balance at June 30, 2020	$ 1,344,932	$ 4,516,701	$ 129,495	$ 22,070	$ 6,270	$ 1,952	$ -	$ 19,051	$ 6,040,471
Charge-offs	-	(1,583)	-	-	-	-	-	-	(1,583)
Recoveries	2,417	-	-	-	-	-	-	-	2,417
Provision for loan losses	330,499	(62,063)	43,271	3,941	822	329	-	252	317,051
Other	3,288	(113,378)	-	-	-	-	-	-	(110,090)
Balance at September 30, 2020	$ 1,681,136	$ 4,339,677	$ 172,766	$ 26,011	$ 7,092	$ 2,281	$ -	$ 19,303	$ 6,248,266
Balance at December 31, 2019	$ 1,853,403	$ 1,656,635	$ 746,813	$ 9,978	$ 20,898	$ 11,724	$ -	$ 24,453	$ 4,323,904
Charge-offs	-	(1,583)	-	-	-	-	-	-	(1,583)
Recoveries	33,042	-	-	-	-	-	-	-	33,042
Provision for loan losses	(205,534)	2,708,261	(574,047)	16,033	(13,806)	(9,443)	-	(5,150)	1,916,314
Other	225	(23,636)	-	-	-	-	-	-	(23,411)
Balance at September 30, 2020	$ 1,681,136	$ 4,339,677	$ 172,766	$ 26,011	$ 7,092	$ 2,281	$ -	$ 19,303	$ 6,248,266
Ending Balance:									
Individually evaluated for impairment	$ -	$ 353,758	$ -	$ -	$ -	$ -	$ -	$ 16,887	$ 370,645
Collectively evaluated for impairment	1,681,136	3,985,919	172,766	26,011	7,092	2,281	-	2,416	5,877,621
Balance at September 30, 2020	$ 1,681,136	$ 4,339,677	$ 172,766	$ 26,011	$ 7,092	$ 2,281	$ -	$ 19,303	$ 6,248,266

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Mission-Related Investments	Total
Recorded Investments in Loans Outstanding:									
Ending Balance at September 30, 2021	**$ 1,520,205,354**	**$ 214,291,903**	**$ 126,976,104**	**$ 16,171,545**	**$ 8,435,100**	**$1,158,007**	**$ 4,091,532**	**$ 870,642**	**$ 1,892,200,187**
Individually evaluated for impairment	**$ 5,753,223**	**$ 2,457,351**	**$ 4,540**	**$ -**	**$ 608,102**	**$ -**	**$ -**	**$ 764,906**	**$ 9,588,122**
Collectively evaluated for impairment	**$ 1,514,452,131**	**$ 211,834,552**	**$ 126,971,564**	**$ 16,171,545**	**$ 7,826,998**	**$1,158,007**	**$ 4,091,532**	**$ 105,736**	**$ 1,882,612,065**
Ending Balance at September 30, 2020	$ 1,123,036,912	$ 213,863,971	$ 115,400,277	$ 17,374,324	$ 4,737,043	$ 1,524,126	$ -	$ 1,613,946	$ 1,477,550,599
Individually evaluated for impairment	$ 7,375,762	$ 3,154,430	$ -	$ -	$ -	$ -	$ -	$ 794,986	$ 11,325,178
Collectively evaluated for impairment	$ 1,115,661,150	$ 210,709,541	$ 115,400,277	$ 17,374,324	$ 4,737,043	$ 1,524,126	$ -	$ 818,960	$ 1,466,225,421

NOTE 4 —LEASES:

The components of lease expense were as follows:

		For the Three Months Ended		For the Nine Months Ended	
	Classification	**September 30, 2021**	September 30, 2020	**September 30, 2021**	September 30, 2020
Operating lease cost	Right of use asset	**$ 32,217**	$ 36,342	**$ 96,466**	$ 42,796
Short-term lease cost		**3,600**	3,600	**10,800**	13,201
Finance lease cost:					
Amortization of right-of-use assets		**(2,676)**	(6,216)	**2,409**	(3,816)
Net lease cost		**$ 33,141**	$ 33,726	**$ 109,675**	$ 52,181

Other information related to leases was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	**$ 29,541**	$ 30,126	**$ 98,875**	$ 96,980
Right-of-use assets obtained in exchange for lease obligations:				
Operating leases	**$ 32,217**	$ 36,342	**$ 96,466**	$ 100,796

Lease term and discount rate are as follows:

	September 30, 2021	December 31, 2020
Weighted average remaining lease term in years		
Operating leases	**3.67**	3.68
Weighted average discount rate		
Operating leases	**1.14%**	1.30%

Future minimum lease payments under non-cancellable leases as of September 30, 2021 were as follows:

	Operating Leases
2021 (excluding the nine months ended 9/30/21)	$ 34,006
2022	91,105
2023	48,533
2024	44,741
2025	45,653
Thereafter	7,634
Total lease payments	$ 271,672

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 dividends, equity retirements and other actions that may decrease the Association’s permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an 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

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of September 30, 2021
Common equity tier 1 ratio	7.00%	12.42%
Tier 1 capital ratio	8.50%	12.42%
Total capital ratio	10.50%	12.65%
Permanent capital ratio	7.00%	12.44%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	11.45%
UREE leverage ratio	1.50%	8.89%

The details for the amounts used in the calculation of the regulatory capital ratios as of September 30, 2021:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 77,598,304	$ 77,598,304	$ 77,598,304	$ 77,598,304
Paid-in capital	47,596,495	47,596,495	47,596,495	47,596,495
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	4,321,847	4,321,847	4,321,847	4,321,847
Allocated equities:				
Allocated equities held ≥7	57,254,242	57,254,242	57,254,242	57,254,242
Nonqualified allocated equities not subject to retirement	54,470,142	54,470,142	54,470,142	54,470,142
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	4,014,291	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(24,709,885)	(24,709,885)	(24,709,885)	(24,709,885)
Other regulatory required deductions	(1,957,712)	(1,957,712)	(1,957,712)	(1,957,712)
	$ 214,573,433	**$ 214,573,433**	**$ 218,587,724**	**$ 214,573,433**
Denominator:				
Risk-adjusted assets excluding allowance	$ 1,754,640,966	$ 1,754,640,966	$ 1,754,640,966	$ 1,754,640,966
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(26,667,597)	(26,667,597)	(26,667,597)	(26,667,597)
Allowance for loan losses	-	-	-	(3,755,563)
	$ 1,727,973,369	**$ 1,727,973,369**	**$ 1,727,973,369**	**$ 1,724,217,806**
Calculated Ratio	**12.42%**	**12.42%**	**12.65%**	**12.44%**

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 77,598,304	$ 77,598,304
Paid-in capital	47,596,495	47,596,495
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	4,321,847	-
Allocated equities:		
Allocated equities held ≥7	57,254,242	-
Nonqualified allocated equities not subject to retirement	54,470,142	54,470,142
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(24,709,885)	(11,022,481)
Other regulatory required deductions	(1,957,712)	(1,957,712)
	$ 214,573,433	**$ 166,684,748**
Denominator:		
Total Assets	$ 1,907,846,243	$ 1,907,846,243
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(33,203,885)	(33,203,885)
	$ 1,874,642,358	**$ 1,874,642,358**
Calculated Ratio	**11.45%**	**8.89%**

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

September 30, 2021	**Net of Tax**
Nonpension postretirement benefits	**$ (578,737)**

September 30, 2020	Net of Tax
Nonpension postretirement benefits	$ (695,909)

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 nine months ended September 30:

	2021	**2020**
Accumulated other comprehensive loss at January 1	**$ (580,789)**	$ (710,138)
Amortization of prior service credit included in salaries and employee benefits	**(16,287)**	(16,287)
Amortization of actuarial loss included in salaries and employee benefits	**18,339**	30,516
Other comprehensive income (loss), net of tax	**2,052**	14,229
Accumulated other comprehensive loss at September 30	**$ (578,737)**	$ (695,909)

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:

September 30, 2021	**Fair Value Measurement Using**		
	Level 1	**Level 2**	**Level 3**
Assets:			
Loans*	**$ -**	**$ -**	**$ 499,256**
Other property owned	**-**	**-**	**-**

December 31, 2020	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
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.

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.

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 and nine months ended September 30:

Three months ended September 30:	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**	10,172
Net periodic benefit cost	**$ 48,000**	$ 59,358

Nine months ended September 30:	Other Benefits	
	2021	2020
Service cost	**$ 44,360**	$ 42,908
Interest cost	**97,587**	120,939
Amortization of prior service credits	**(16,287)**	(16,287)
Amortization of net actuarial loss	**18,339**	30,515
Net periodic benefit cost	**$ 143,999**	$ 178,075

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2021, was $4,760,678 and is included in other liabilities on the balance sheet.

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 September 30, 2021, $474,728 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 November 3, 2021 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of as of this date.